ENTREPRENEURSHIP ENVIRONMENT ASSESSMENT IN JORDAN

Silatech Research and Policy Report

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Report Introduction

Key Points

1. Despite being positioned well in some Doing Business sectors, Jordan has underachieved in developing a regulatory environment to promote entrepreneurship.
2. Incremental improvements in specific sectors will push Jordan up the rankings.
3. Microfinance in Jordan is a transparent industry, with well ranked institutions, and with an effective path of growth and poverty reduction, but no proven increases in employment generation.
4. To Increase the microfinance industry's effectiveness, Jordan should implement specific micro-lending regulation, cluster industries, reach out to more private capital investment and provide mentoring and financial training.
5. Small to medium size enterprise (SMEs) are 99 percent of all private firms in Jordan and employ 77 percent of the private sector workforce, yet they receive only 13 percent of total value of commercial loans.
6. A funding gap for firms needing US$50,000 to $2,000,000 in financing has been identified.
7. Accessing finance is the greatest challenge reported by SME business owners in Jordan.

Introduction

Despite periods of growth, Jordan has been unable to sustain consistent growth in recent years. In the early 1980s, Jordan's Gross Domestic Product (GDP) growth averaged 7.4 percent. As Jordan's neighboring countries faced recessions due to falling oil prices, growth in Jordan fell to -14 percent in 1988. Jordan needed almost 18 years to recover from this fall. From 2000 to 2008, Jordan averaged 6.7 percent growth. Like most of the rest of the world, Jordan's regressed in 2009 and 2010 to 2 percent.

Over the past 30 years, Jordan has not been able to weather international economic fluctuations. The inability to ride out international economic situations has resulted in difficulty creating employment opportunities for Jordanians. As previously mentioned, unemployment - principally in youth and women - persists. According to the World Bank, "Close to one young individual in three aged 15-24 years is unemployed; almost three-quarter of the pool of unemployed are young; close to one-fifth of women are unemployed; yet, only 15 percent of them participate in the labor market compared to 70 percent in East Asia" (Diop, et al., May 2012).

Perhaps most importantly though, unemployment has adversely affected educated Jordanians. The current unemployment rate for women with a university degree is 25 percent as compared to 15 percent for women with less education.

Jordan has strengths -- such as labor capital -- to build on in order to sustain growth and to create employment. Most notably, Jordan is home to an abundance of engineers, doctors, and information technology specialists.

Jordan has one of the most open economies in the Middle East and North Africa region, which was derived from market-oriented reforms in the early 2000s. Non-traditional sectors are beginning to emerge in Jordan (such as information technology and medical tourism).

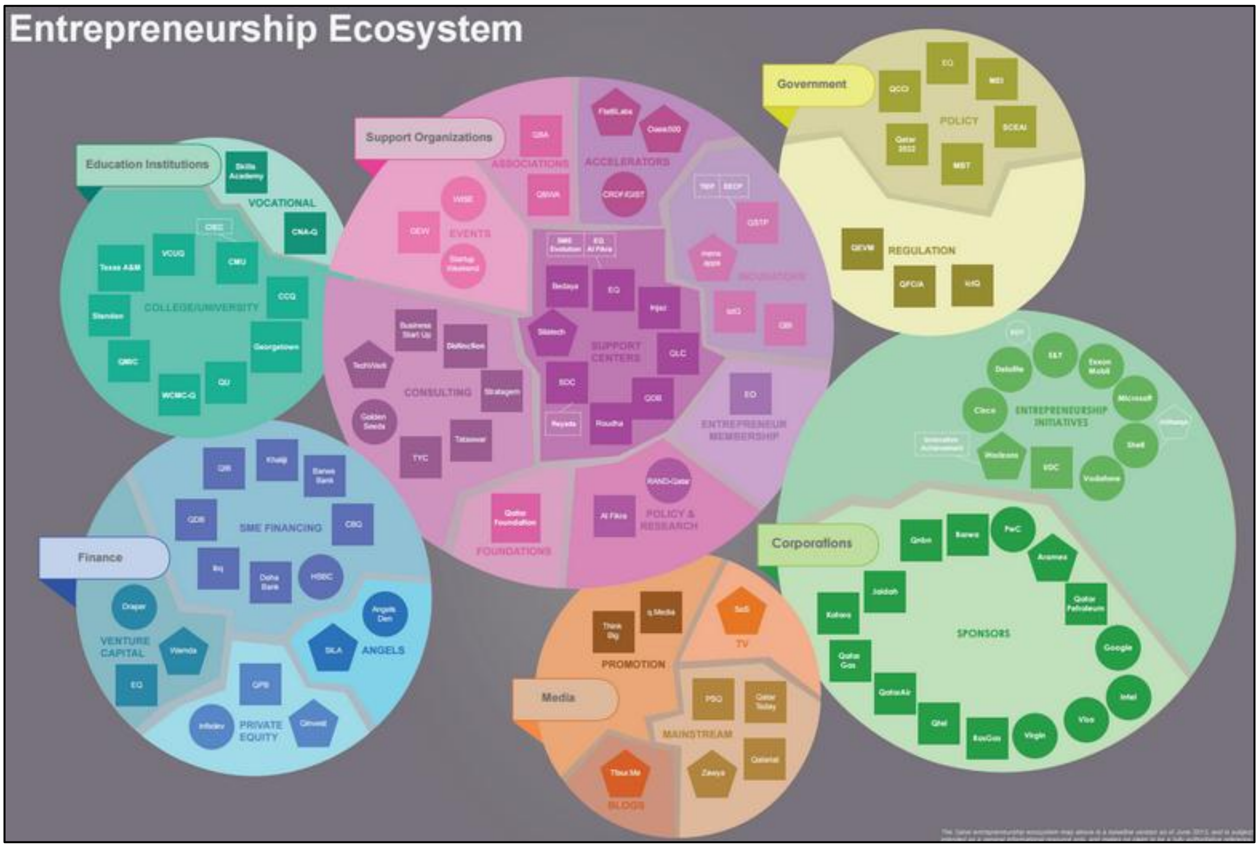
Despite these assets, Jordan still has a long way to go towards creating a healthy business environment for entrepreneurs to flourish.

Why Silatech and Entrepreneurship promotion?

Unemployment in Jordan remains stubbornly high, particularly among youth with an unemployment rate at nearly 33 percent. Young Jordanians are disappointed with an insufficient ability to climb the social and economic ladder. Despite the best efforts of the government incentivizing the educated youth to remain in Jordan, thousands of young Jordanians are searching for opportunities in Gulf countries or elsewhere abroad. Jordan is now suffering from a “brain drain” (Sharp, 2015).

In response to the “brain drain,” Silatech, a Qatar-based non-profit, enlisted a team of graduate student researchers from the Humphrey School of Public Affairs at the University of Minnesota to analyze the current financial and regulatory systems in place in Jordan with an eye toward cultivating entrepreneurship. Silatech’s mission is to create employment and economic opportunities for youth in the Arab world through collaborations with non-governmental organizations, governments and the private sector.

Silatech considers an Entrepreneurial Ecosystem the summary of interactions between many actors such as educational institutions, support organizations, government, media, corporations, finance, innovation and cultural/social factors. The Entrepreneurship Ecosystem Chart below, created by Silatech for similar work in Qatar, exemplifies the complex relationships and the broad arena of players involved in fostering an environment that is friendly to entrepreneur development. This purpose of this report is to shed light on two key ingredients in that mix in Jordan; government regulation and business finance.



Source: Silatech

Summary of Report Chapters

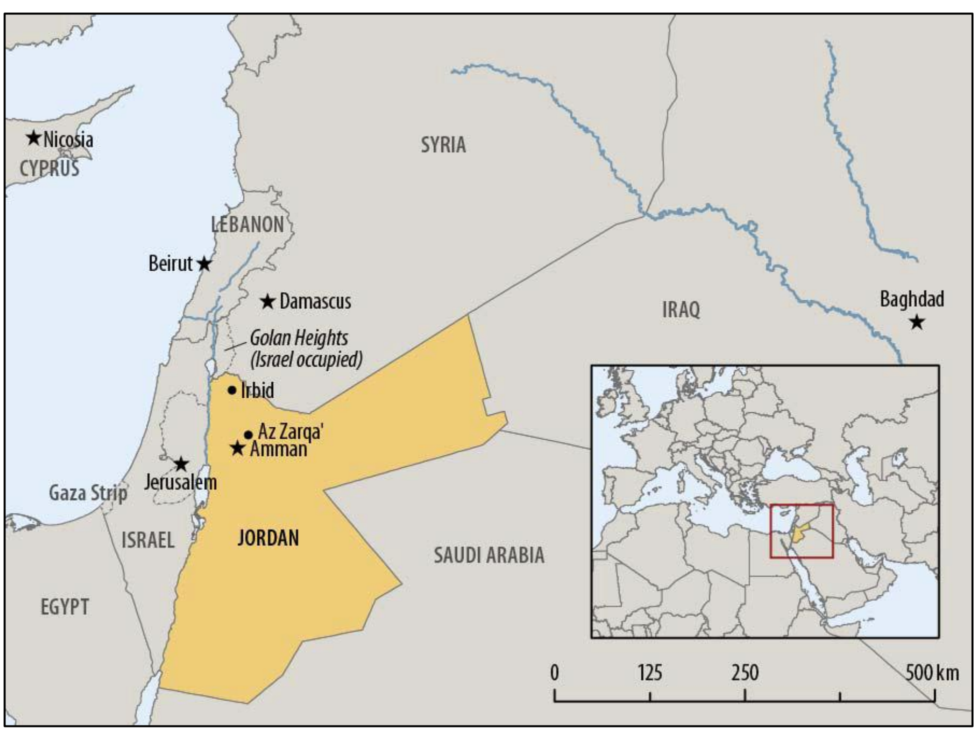
The following chapters are intended to be a starting point for further analysis for policy proposals in order to overcome challenges of unemployment among young people in Jordan. Using data from the World Bank, Chapter One researches and reports on Jordan’s regulatory framework as compared to other countries with similar economic status and World Bank rankings.

Chapter Two presents an assessment of the current financial and legal infrastructure of microfinance in Jordan. Chapter Two undertakes an extensive literature review to establish the current situation of the microfinance environment, including a description of the market, major actors and benchmarks against other Arab countries and regions. The chapter concludes by summarizing the main challenges to further develop the industry and recommendations to enhance their effectiveness and potential to become grow from micro to small and medium-sized enterprises (SMEs.)

Chapter Three builds upon Chapter Two and outlines the challenges associated with SME lending in Jordan and barriers to economic mobility for firms seeking to grow. By examining existing research, this section provides a summary of the importance of SMEs in Jordan's economy and the current struggle these business owners face in accessing much-needed financing and related services. The section also examines the experiences and challenges for SME financing from the bank's point of view.

Jordan Background

To understand why Jordan is in their current economic situation, it is important to understand Jordan from a historical and government background.



Source: (Sharp, 2015)

Jordan's recent history

The Hashemite Kingdom of Jordan was established following World War I. The inhabitants at Jordan's creation were mostly Bedouin and other tribes. Following the creation of Israel, a large influx of Palestinians moved into Jordan. The "original" Jordanians continue to hold power in the country's political and military systems as well as providing the strongest support for the monarchy. "Jordanians of Palestinian origin comprise an estimated 55 percent to 70 percent of the population and generally tend to gravitate toward the private sector due to their exclusion from certain public sector and military positions" (Sharp, 2015).

Jordan remains a stable presence in its neighborhood despite civil unrest on its borders. Domestically though, Jordan's lack of resources and small geographic size and location have resulted in a recessing national economy (Sharp, 2015).

Table 1.1: Summary Statistics of Jordan	
Size	89, 213 sq. km.; rank 112
Literacy	95.9% (male 97%, female 94%)
GDP	$6,100 per capita; country rank 151
Youth Unemployment (Age 15-24)	33%
Source: (Sharp, 2015)	

Jordan's Government Structure

Jordan's government operates as a constitutional monarchy. The current leader is King Abdullah II. The King designates a prime minister to preside over the government and the Council of Ministers. The Council of Ministers operates as a cabinet by advising the King. A Jordanian government usually lasts at most 15 months, before dissolution via royal decree (Sharp, 2015).

The Constitution (enacted in 1952) sanctions the king with broad executive powers. Article 35 of the Constitution states, "The King appoints the Prime Minister and may dismiss him or accept his resignation. He appoints the Ministers; he also dismisses them or accepts their resignation, upon the recommendation of the Prime Minister" (Sharp, 2015). Under constitutional authority, the King can also disband Parliament and postpone elections.

The Constitution allows for an independent judiciary. Article 97 of the Constitution states that, "judges are independent, and in the exercise of their judicial functions they are subject to no authority other than that of the law" (Sharp, 2015). Through decree, the King may designate or dismiss judges (Sharp, 2015).

Jordan's Economy Today

Due to few natural resources and a small industrial sector, Jordan's economy is reliant on foreign aid as well as tourism, the service sector and foreign worker remittances. As a result, the government is the largest single employer in Jordan. According to the United States Congressional Research Service, "among the long-standing problems Jordan faces are poverty, corruption, slow economic growth, and high levels of unemployment (including female unemployment)" (Sharp, 2015).

International Monetary Fund (IMF) analysis shows that Jordan is recovering slowly from the 2011 downturn across the Middle East and North Africa region. In the first 6 months of 2014, Gross Domestic Product (GDP) growth stalled at 3 percent. GDP is predicted to grow to 4.5 percent due to tourism and infrastructure projects in the coming months and years (Sharp, 2015).

This background helps to provide context for our broader analysis of the entrepreneur environment in the country. We will now narrow on three topics in the following chapters to as a lens into the entrepreneur experience in Jordan.

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Chapter 1: Regulatory Environment in the Hashemite Kingdom of Jordan

Executive Summary

"An essential foundation of sustainable economic development is a vibrant private sector, which in turn requires an enabling business regulatory environment to thrive" (Jaoui & Rashid, 2015).

In the years following the global recession of 2008-2009, countries and their economies looked to enable their business and regulatory environments to promote entrepreneurship. Despite being positioned well in some *Doing Business* sectors, Jordan has a steep hill to climb in order to entrench the principles of a strong regulatory framework into their national economy.

Jordan Rankings At A Glance (The World Bank, 2015)		
Rankings	2014	2015
Overall	116	117
DTF	58.29	58.4
Protecting Minority Investors	143	154
Resolving Insolvency	144	145
Getting Credit	185	185

Chart 1

This report shows that that Jordan is a long way away from a solid regulatory framework. When analyzing the World Bank's *Doing Business* rankings in disaggregate, Jordan has underachieved in developing a regulatory environment to promote entrepreneurship. With incremental improvements in specific sectors though, Jordan will be able to improve their rankings.

Introduction

"Regulation, one of the three key levers of state power (together with fiscal and monetary policy), is of critical importance in shaping the welfare of economies and society" (OECD, 2010).

Regulatory policy aims to guarantee that *Doing Business* frameworks are in the public interest and also allow businesses and entrepreneurships to flourish. According to the Organization for Economic Cooperation and Development (OECD), "An effective regulatory policy supports economic development and the rule of law" (OECD, 2010).

This report focuses on the World Bank's *Doing Business 2015: Going Beyond Efficiency* report, with a goal of isolating sectors for upgrade in Jordan's regulatory framework in order to promote entrepreneurial business in the Jordanian economic system. This report will compare Jordan to country counterparts (see chart 2) that have similar income group designations, similar gross national income (GNI) per capita figures and most importantly are countries that have either surpassed or fell behind Jordan in the *Doing Business* rankings. Because of similar governing structures, Jordan will also be compared to Morocco and Tunisia, each of whom are in Jordan's Middle East and North Africa region. For ease of description, this report will refer to these countries as the "Cluster 8." The reader should note that this report will not provide policy recommendations, but instead creates a basis for further policy analysis.

World Bank's *Doing Business* Economy Profiles

Doing business focuses on two aggregate measures: the ease of doing business and the distance to frontier measure. Ease of doing business compares economies to other economies. The ease of doing business ranks world economies from one to 189.

Ten specific indicators compose the aggregate measurement (Jaoui & Rashid, 2015):

1) starting a business
2) dealing with construction permits
3) getting electricity
4) registering property
5) getting credit
6) protecting minority investors
7) paying taxes
8) trading across borders
9) enforcing contracts
10) resolving insolvency

The distance to frontier (DTF) is determined from best practices of the 10 indicators across all economies. According to the World Bank, “This measure shows the distance of each economy to the ‘frontier,’ which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005” (World Bank Group, 2015). DTF is measured on a scale from zero to 100, with 100 being a high performer. For example, if Country X has a DTF number of 52 in 2014 and then 54 in 2015, then Country X’s performance is improving. For this report, DTF rankings will be over a 6 year period to understand the development and progression of Jordan versus the Cluster 8 over a time period.

This chapter will focus on *resolving insolvency, protecting minority investors* and *getting credit*. Jordan is lagging behind the rest of the world in these indicators, which is why they will be the primary focus.

Jordan and the Cluster 8

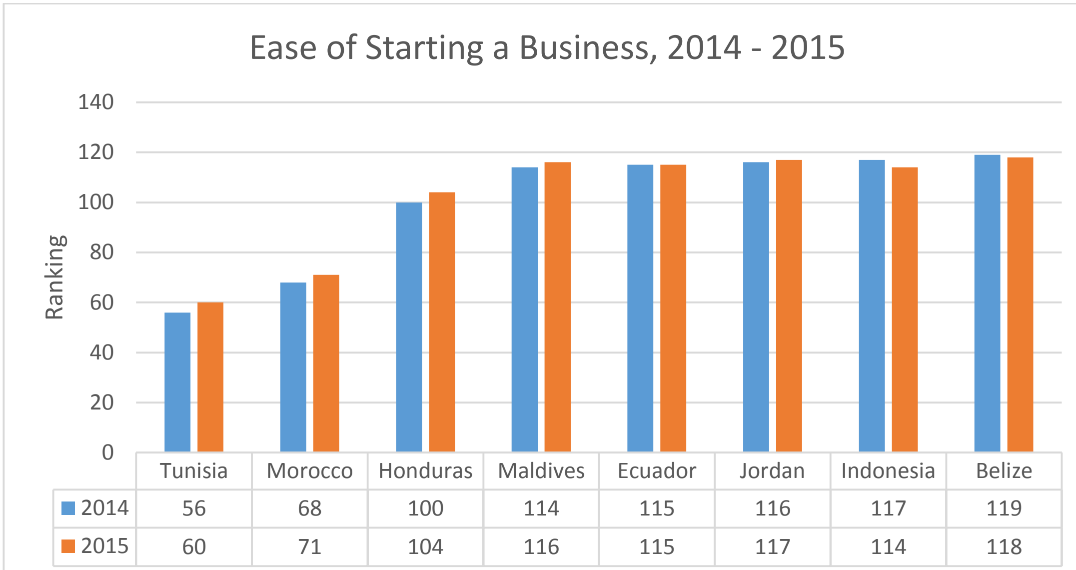
Country	Income Level	GNI per capita ($)
Honduras	Lower Middle	4270
Morocco	Lower Middle	7000
Belize	Upper Middle	7870
Indonesia	Lower Middle	9270
Maldives	Upper Middle	9900
Tunisia	Upper Middle	10610
Ecuador	Upper Middle	10720
Jordan	**Upper Middle**	**11660**
(The World Bank, 2015)		

Chart 2

Ease of Doing Business Ranking

Figure 1 below compares Jordan’s Ease of Doing Business rankings to the Cluster 8. Out of 189 countries, Jordan was 116 in 2014 and 117 in 2015. Of the Cluster 8, Jordan is closer to Belize (2015: 119, 2014: 118) at the bottom of the grouping than Tunisia at the top. Indonesia (2014: 117, 2015: 114) and Belize are the only economies in the Cluster 8 that improved from 2014 to 2015.

Figure 1 (The World Bank, 2015)



Distance to the Frontier

As previously mentioned, the distance to the frontier score measures a country's business environment over time. Distance to the frontier is assessed on a scale from zero to 100. Zero is the low end of the scale, while 100 is the frontier. According to the World Bank Group, "the distance to frontier measure complements the annual ease of doing business ranking, which compares economies with one another at a point in time" (World Bank Group, 2015).

Figure 2 and Figure 3 show the evolution of Jordan alone and then versus the Cluster 8 in DTF from 2010 to 2015. Figure 2 demonstrates that Jordan has moved close to 100 – the frontier - moving from 57.01 in 2010 to 58.4 in 2015. Despite overall improvement, Jordan regressed from 2012 (58.26) to 2013 (58.13). This lapse might be due to street protests in Jordan in 2012 resulting in a dissolution of the Parliament (Sherlock, 2012).

Despite Figure 2 showing that Jordan is on an upswing, Figure 3 illustrates that the Jordanian economy still remains behind Tunisia and Morocco and grouped tightly with most of the Cluster 8 countries. It is also noteworthy for future analysis that from 2010 to 2015, the gap between Jordan and Tunisia has narrowed while the gap between Jordan and Morocco has increased.

Figure 2 (The World Bank, 2015)

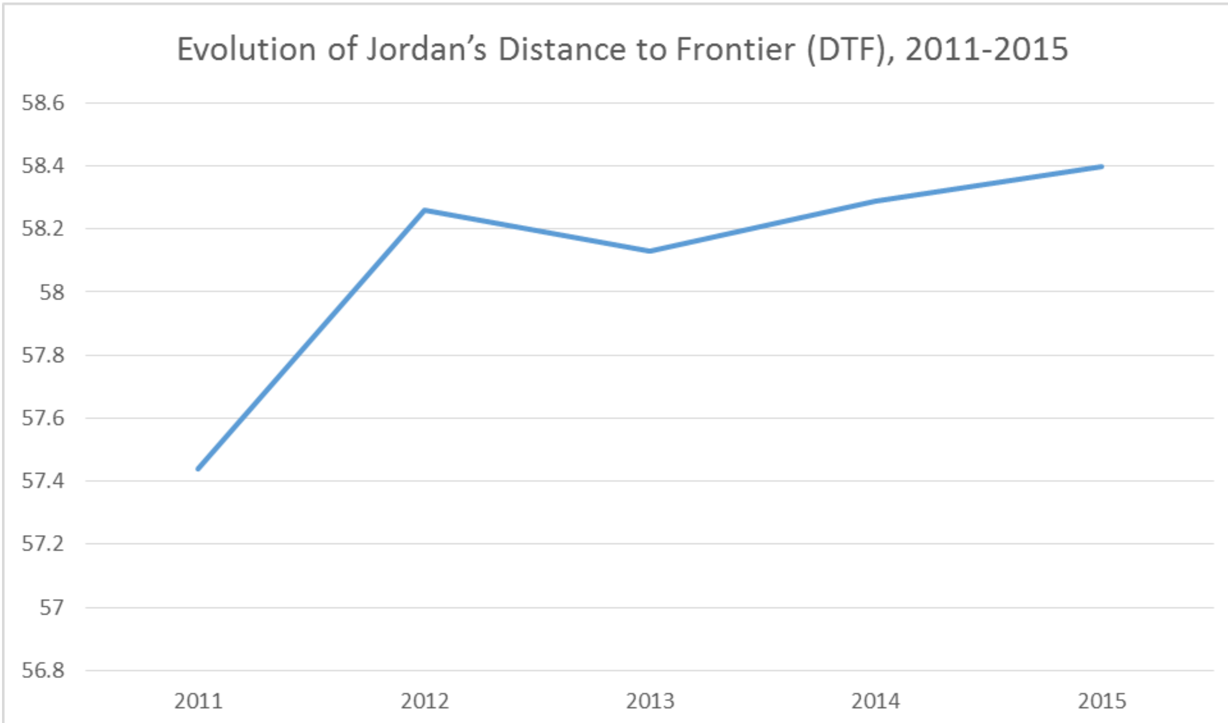
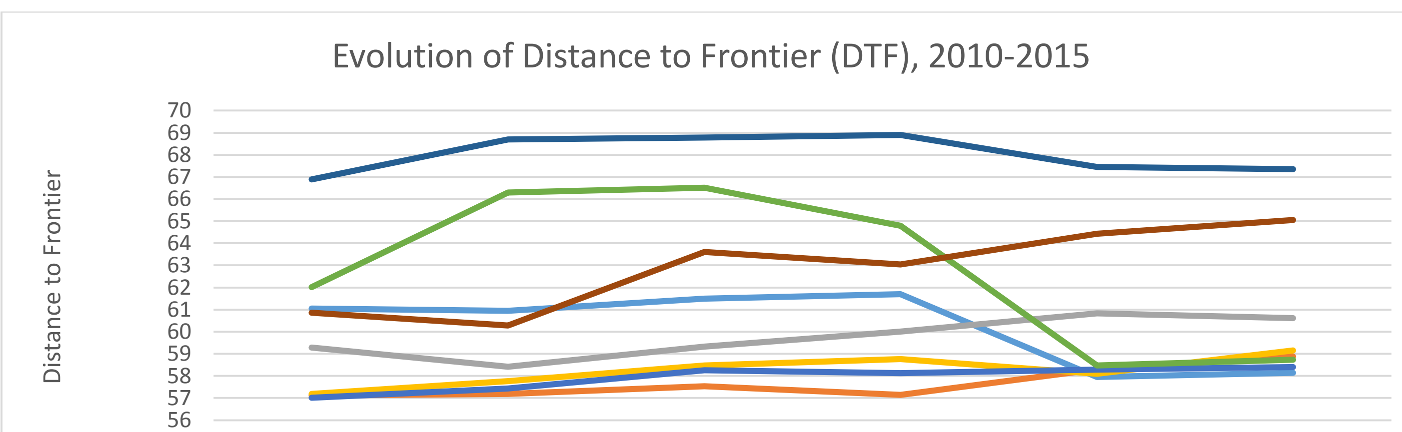


Figure 3 (The World Bank, 2015)



	2010	2011	2012	2013	2014	2015
Belize	61.05	60.94	61.5	61.7	57.96	58.14
Ecuador	57.12	57.19	57.54	57.14	58.3	58.88
Honduras	59.28	58.41	59.33	60.01	60.83	60.61
Indonesia	57.18	57.76	58.47	58.76	58.1	59.15
Jordan	57.01	57.44	58.26	58.13	58.29	58.4
Maldives	62.01	66.3	66.52	64.79	58.48	58.73
Tunisia	66.89	68.69	68.78	68.9	67.45	67.35
Morocco	60.86	60.28	63.61	63.05	64.43	65.06

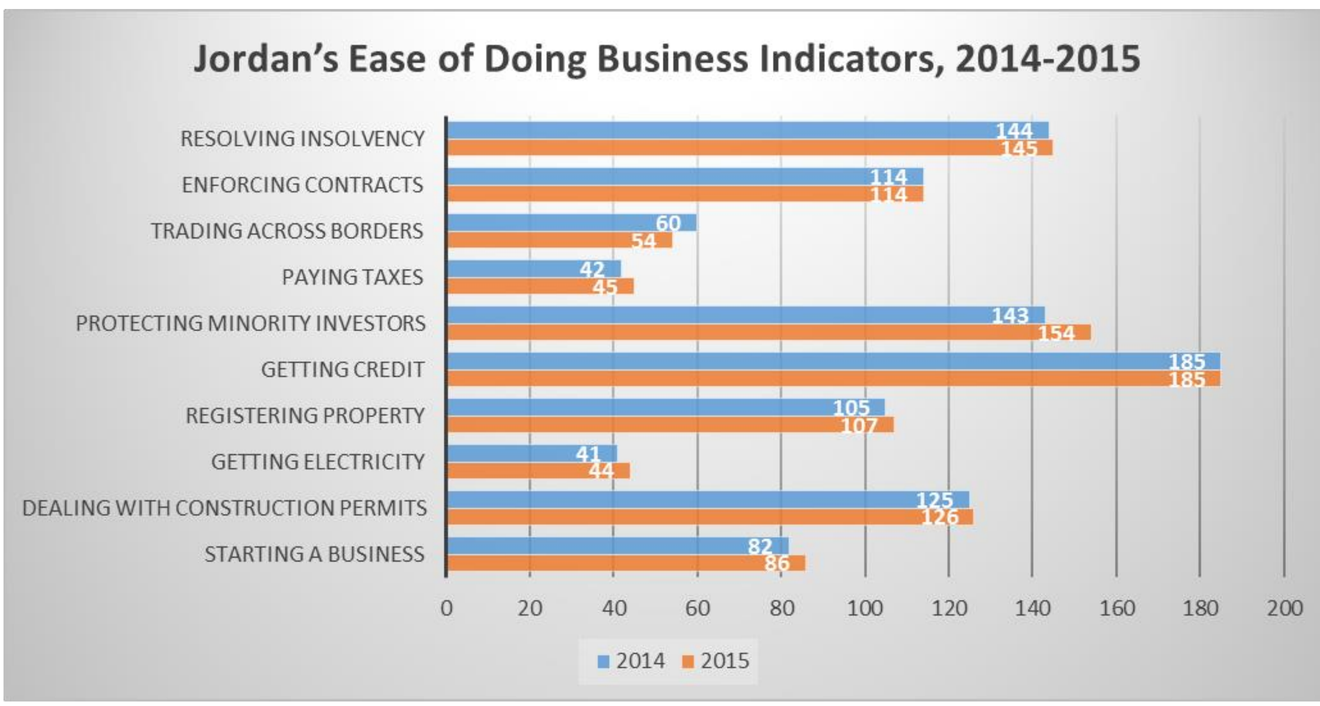
Regulatory Drivers

The overall *Ease of Doing Business* rankings does not tell the entire Jordan story. It is necessary to look at further breakdowns of the state of the regulatory environment in Jordan. Disaggregating the rankings isolates specific regulations to better understand Jordan's regulatory framework.

Indicators

Figure 3 highlights specific regulatory indicators. Except for *Trading Across Borders,* where Jordan improved from a ranking of 60 in 2014 to a ranking of 54 in 2014, Jordan remained the same or regressed in every indicator from 2014 to 2015.

Figure 4 (The World Bank, 2015)



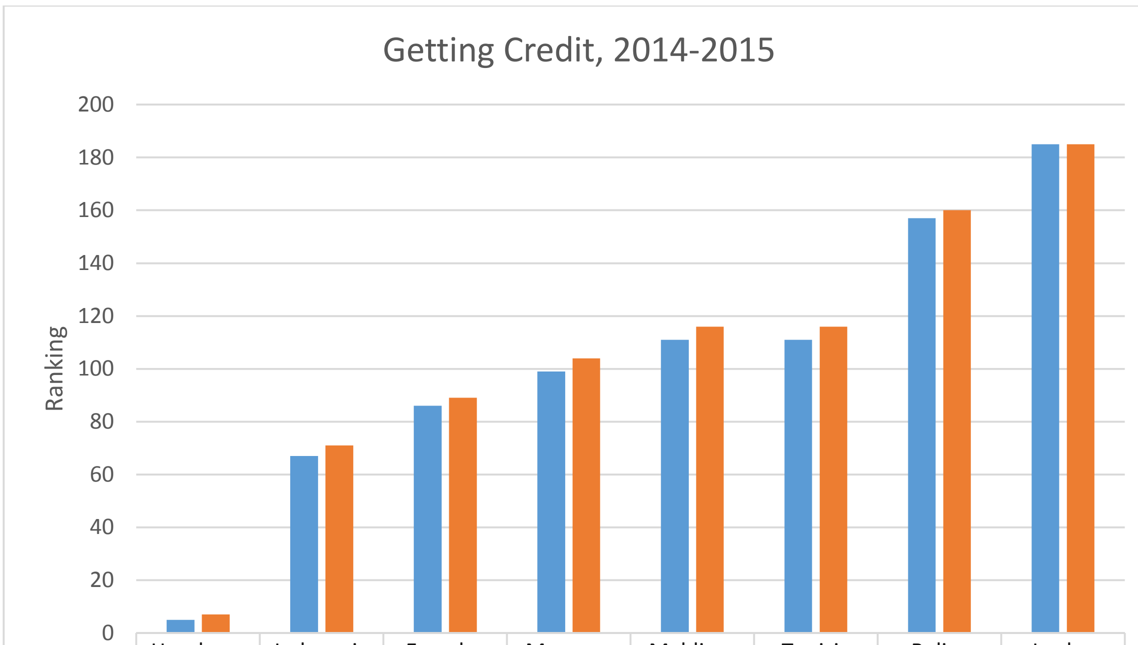
Regulatory Protections

Getting Credit

"When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws and increase the scope, coverage and accessibility of credit information, they can increase entrepreneurs' access to credit" (World Bank, 2014). Fortified borrowing and lending laws and regulations empower businesses to leverage their assets in order to create capital. According to the World Bank, "strong creditors' rights have been associated with higher ratios of private sector credit to GDP" (World Bank, 2014).

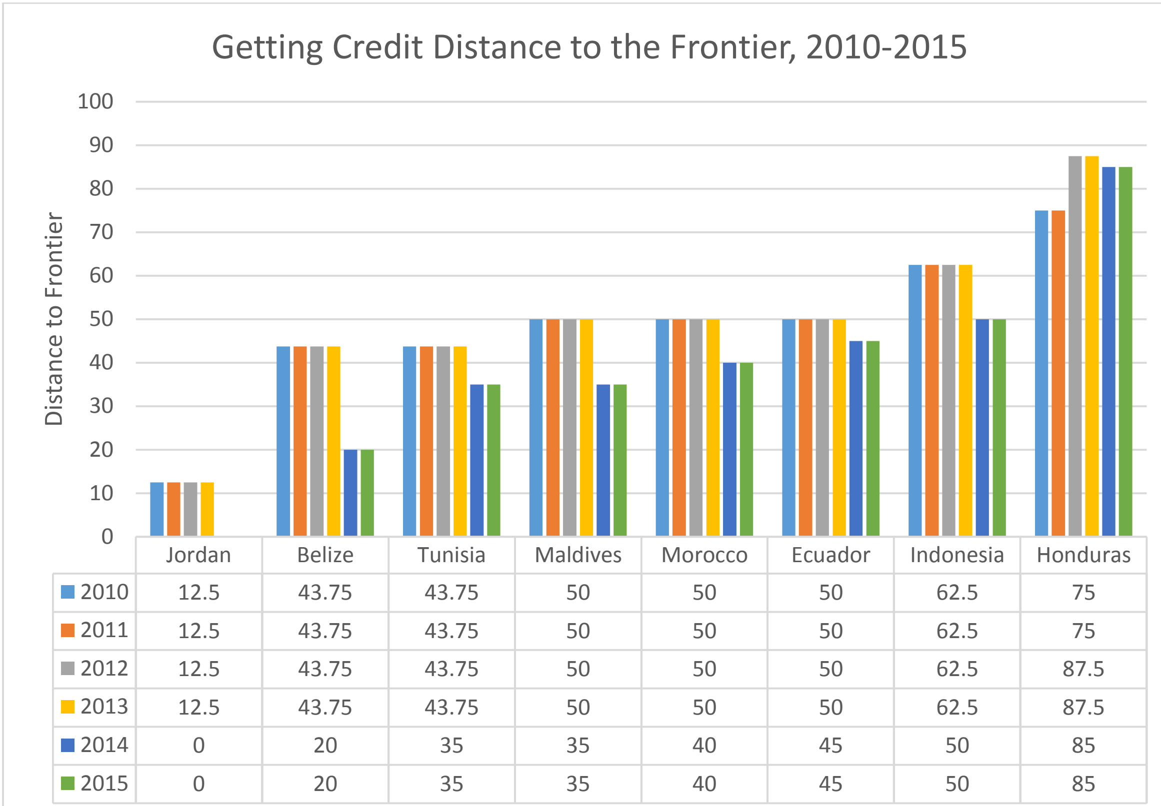
Figure 5 and Figure 6 compare Jordan to the Cluster 8 in the *Getting Credit* indicator. Jordan has not only performed poorly against its Cluster 8 counterparts, it is also performing poorly compared to all economies across the globe. Figure 5 shows that Jordan ranked 185 out of 189 in both 2014 and 2015. Figure 6 shows that Jordan is as far away from the Frontier in 2014 and 2015 as possible. Each member of the Cluster 8 also decreased in rankings and DTF over the same time period.

Figure 5 (The World Bank, 2015)



	Honduras	Indonesia	Ecuador	Morocco	Maldives	Tunisia	Belize	Jordan
2014	5	67	86	99	111	111	157	185
2015	7	71	89	104	116	116	160	185

Figure 6 (The World Bank, 2015)



	Jordan	Belize	Tunisia	Maldives	Morocco	Ecuador	Indonesia	Honduras
2010	12.5	43.75	43.75	50	50	50	62.5	75
2011	12.5	43.75	43.75	50	50	50	62.5	75
2012	12.5	43.75	43.75	50	50	50	62.5	87.5
2013	12.5	43.75	43.75	50	50	50	62.5	87.5
2014	0	20	35	35	40	45	50	85
2015	0	20	35	35	40	45	50	85

Protecting Minority Investors

Protecting Minority Investors is integral to entrepreneurship and starting a business. It is important for companies to raise capital, modernize and strive in the marketplace. Effective regulations protecting minority investors, such as competent disclosure requirements and stimulate participation in entrepreneurship (World Bank, 2014).

Figure 7 shows that Jordan is not performing well in the *Protecting Minority Investors* sector in these country comparisons as well as across all global economies. Jordan reverted from 143 in 2014 to 154 in 2015. Except for Ecuador (2014: 136, 2015: 117), the Cluster 8 countries either all remained the same or reverted backwards. Indonesia is the standard bearer at 43.

Figure 7 (The World Bank, 2015)

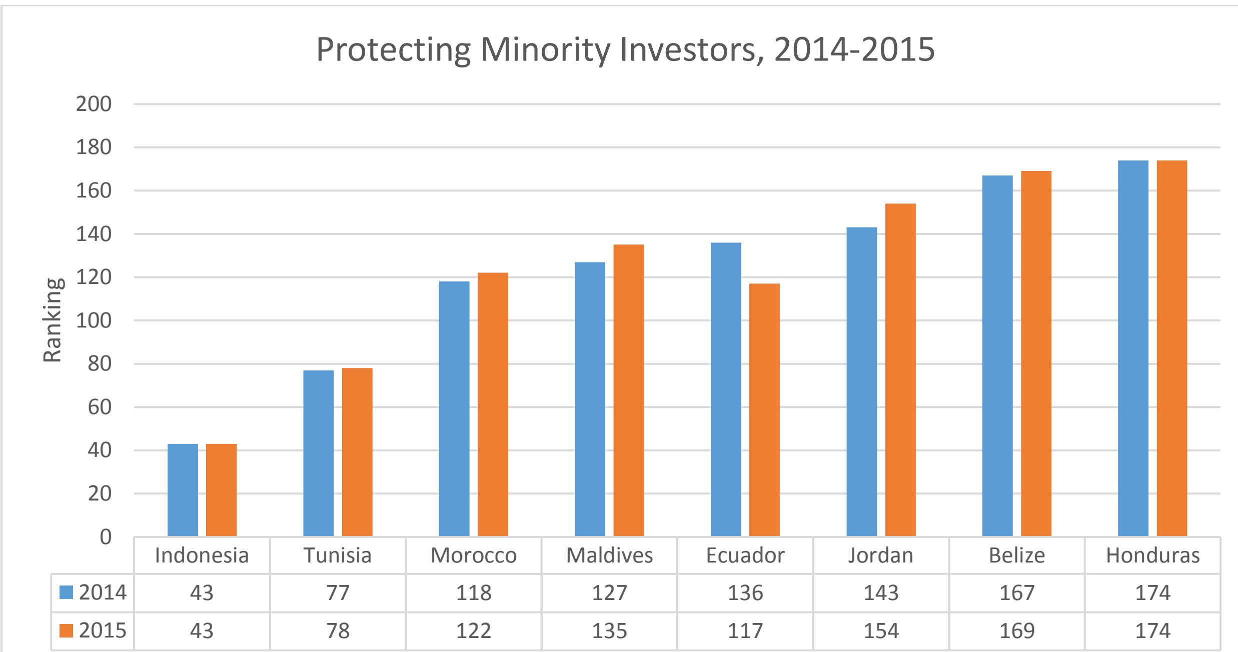
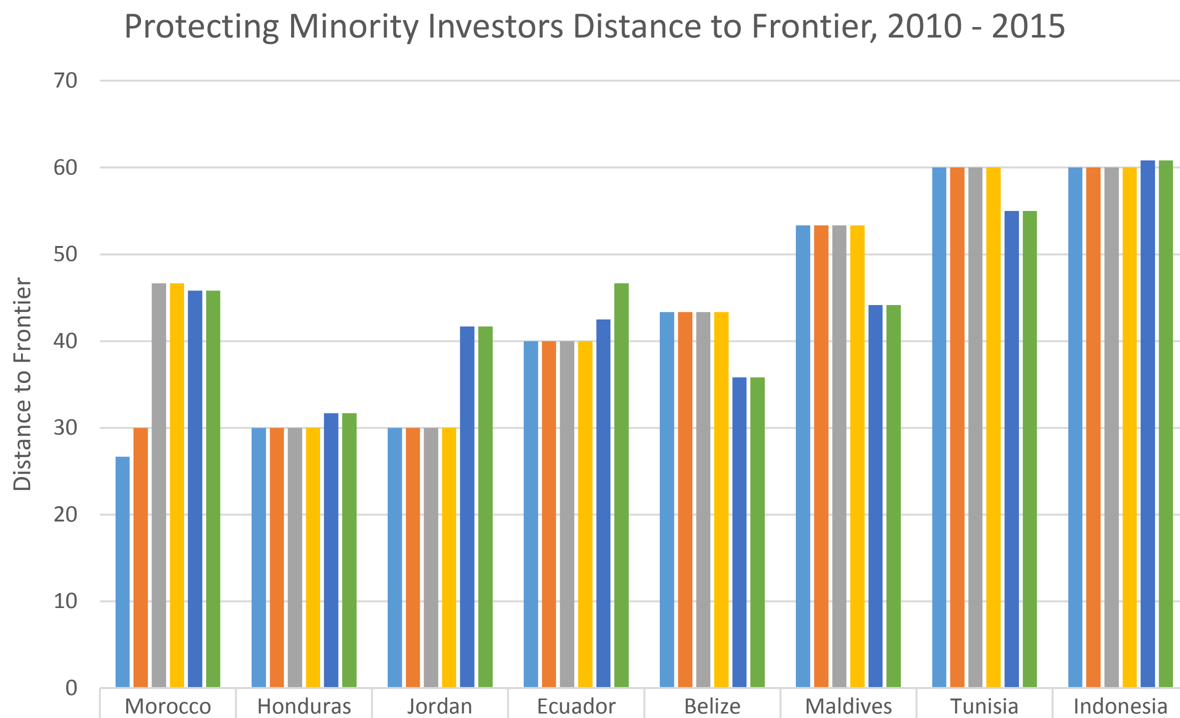


Figure 8 shows though that despite Jordan's rankings dropping in the *protecting minority investors* indicator, they have moved closer to the Frontier. From 2010 to 2013, Jordan was at 30. In 2014 and 2015, Jordan moved closer to the Frontier at 41.67. Of the Cluster 8, Belize, the Maldives and Tunisia were the only economies that moved away from the Frontier.

Figure 8 ((The World Bank, 2015)



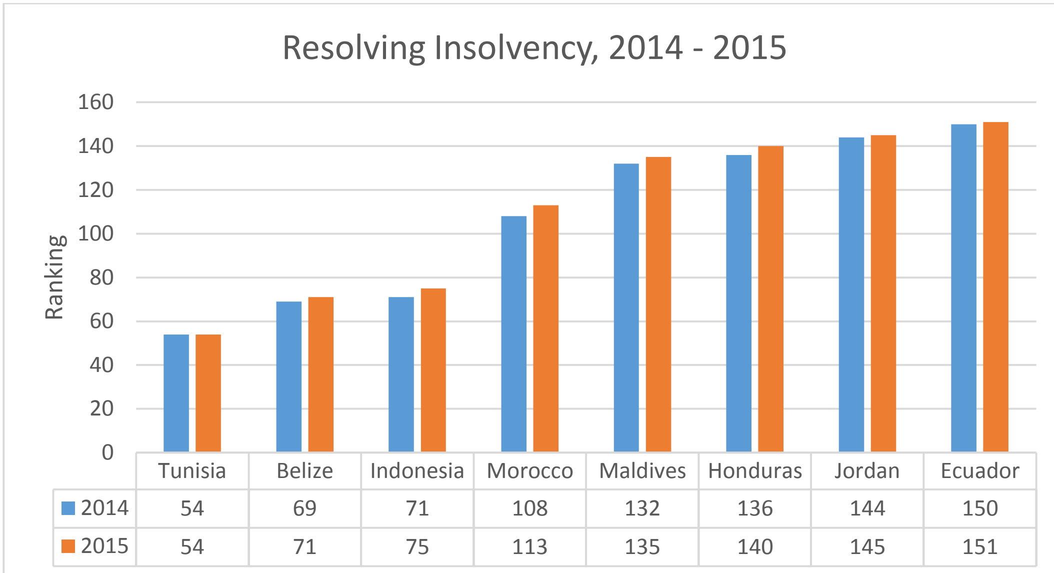
	Morocco	Honduras	Jordan	Ecuador	Belize	Maldives	Tunisia	Indonesia
2010	26.67	30	30	40	43.33	53.33	60	60
2011	30	30	30	40	43.33	53.33	60	60
2012	46.67	30	30	40	43.33	53.33	60	60
2013	46.67	30	30	40	43.33	53.33	60	60
2014	45.83	31.67	41.67	42.5	35.83	44.17	55	60.83
2015	45.83	31.67	41.67	46.67	35.83	44.17	55	60.83

Resolving Insolvency

An efficient bankruptcy system guarantees the success of economically competent companies. Expedient and cheap bankruptcy proceedings cause efficient operations and better results for creditors. According to the World Bank's *Doing Business 2015* report, "by improving the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and thereby improve growth and sustainability in the economy overall" (World Bank, 2014).

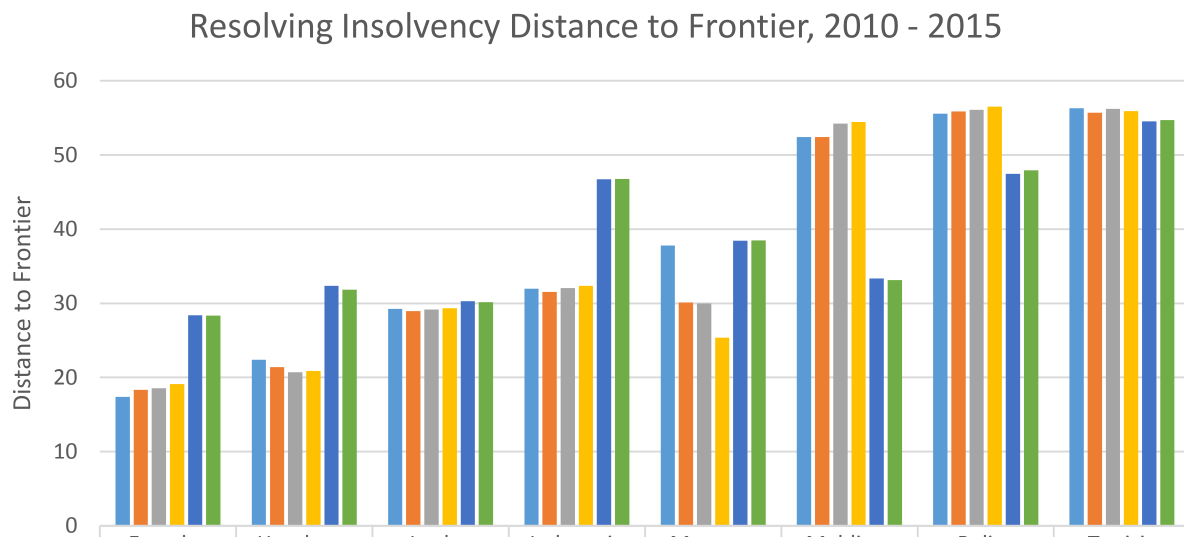
Figure 9 shows that Jordan is not performing well as compared to the Cluster 8 in the *Resolving Insolvency* sector. Jordan ranked 144 in 2014 and 145 in 2015. Jordan is closer to Ecuador (2014: 150, 2015: 151) than it is to Tunisia (2014: 54, 2015: 54), the leader of the group. Jordan can take solace in the fact that no country in the Cluster 8 improved their ranking from 2014 to 2015.

Figure 9 (The World Bank, 2015)



Despite ranking regression in *resolving insolvency,* Jordan did move closer to the Frontier from 2010 (29.23) to 2015 (30.17). The Maldives, Belize and Tunisia were the only countries of the Cluster 8 to regress from the Frontier.

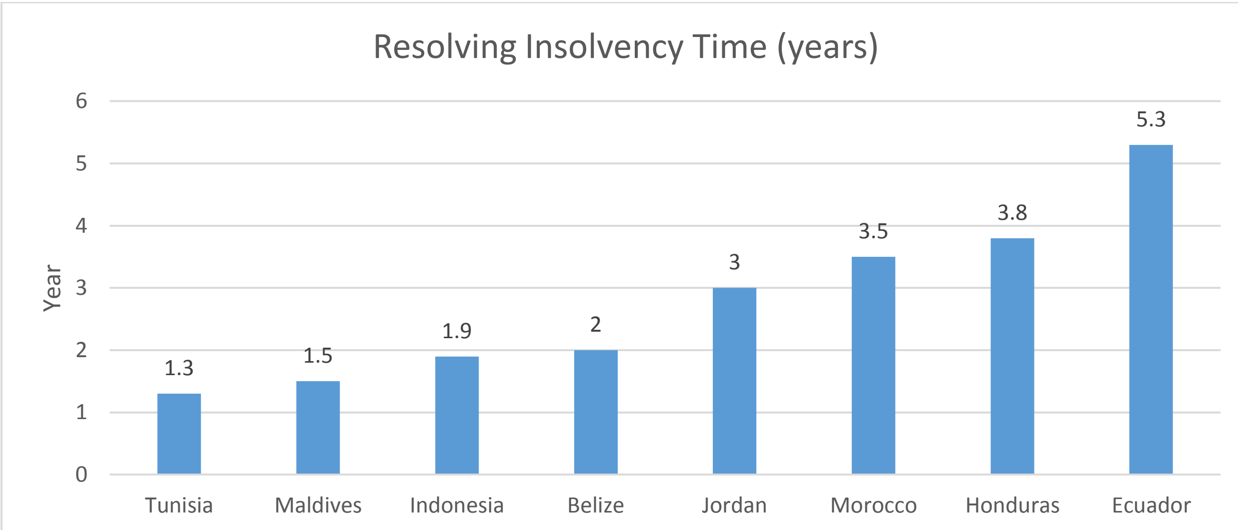
Figure 10 (The World Bank, 2015)



	Ecuador	Honduras	Jordan	Indonesia	Morocco	Maldives	Belize	Tunisia
2010	17.36	22.39	29.23	31.97	37.77	52.42	55.56	56.3
2011	18.31	21.37	28.96	31.52	30.09	52.42	55.86	55.69
2012	18.54	20.69	29.15	32.07	29.99	54.24	56.08	56.21
2013	19.12	20.89	29.32	32.37	25.37	54.44	56.54	55.93
2014	28.37	32.36	30.26	46.71	38.43	33.36	47.48	54.53
2015	28.36	31.83	30.17	46.75	38.47	33.12	47.94	54.71

Figure 10 shows time in years it takes to resolve insolvency for the Cluster 8 countries. Jordan ranks in the middle at three years. Jordan is closer to Tunisia at the smallest amount of time (1.3 years) than to Ecuador (5.3 years) at the most amount of time.

Figure 11 (The World Bank, 2015)



Business Reform Simulators

How would the overall *Doing Business* ranking improve if Jordan implemented incremental advancements in the selected indicators? To answer this question, incremental improvements were inputted into The World Bank *Business Reform Simulator* to analyze how specific reforms would impact Jordan's ranking.

Getting Credit

Improving on the specific components that comprise the *Getting Credit* indicators advances Jordan's *Doing Business* ranking greatly. As noted, in 2015 Jordan ranked 185 out of 189 and 0.00 DTF in the *Getting Credit* indicator. If Jordan improves the components that comprise the *Getting Indicator* components by 1 point, Jordan's improves to 171 and 10.00 DTF. In turn, Jordan's overall *Doing Business* indicator improves from 117 to 114 and 58.40 DTF to 59.40 DTF (The World Bank Group, 2015).

Protecting Minority Investors

Like *Getting Credit*, improving the specific components that comprise the *Protecting Minority Investors* indicator advances Jordan's overall *Doing Business* ranking. In 2015, Jordan ranked 154 and 41.67 DTF in the *Protecting Minority Investors* indicator. Again, improving the components that comprise the *Protecting Minority Investors* indicator by 1 point, raises the ranking from 154 to 132 and 45.00 DTF. The overall *Doing Business* rankings improve to 115 and 58.90 (The World Bank Group, 2015).

Resolving Insolvency

Mirroring the *Getting Credit* and *Protecting Minority Investors* indicators, augmenting specific components that comprise the *resolving insolvency* indicator improves Jordan's overall *Doing Business* ranking. In 2015, Jordan ranked 145 and 30.17 DTF in *resolving insolvency.* Increasing the components that comprise *resolving insolvency* by 1 point, the rankings raise to 131 and 33.83 DTF. Jordan's overall *Doing Business* ranking improves to 116 and 58.77 (The World Bank Group, 2015).

Business Reform Simulator (The World Bank Group, 2015)				
Indicator	Actual Ranking	Plus 1		
Getting Credit	185	171	-	-
Protecting Minority Investors	154	-	132	-
Resolving Insolvency	145	-	-	131
Ease of Doing Business	117	114	115	116

Chart 3

Conclusion

This report evaluated Jordan's regulatory environment using Ease of Doing Business rankings and Distance to Frontier in overall rankings and then in specific indicators. In overall ranking aggregate and then in specific indicator disaggregate, Jordan is falling behind in the Ease of Doing Business rankings. If measured in distance to the frontier, Jordan has shown incremental improvement, but still has a long way to go to establish a strong regulatory system that promotes entrepreneurship. As shown by the Business Reform Simulator though, incremental improvements in specific sectors will push Jordan up the rankings.

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Chapter 2: Microfinance, Challenges to Unlocking Capital and Employment Generation

Executive Summary

This report presents an assessment of the current financial and legal infrastructure of microfinance in Jordan and should be used as a tool to allow for future policy creation or intervention. To achieve this, an extensive literature review is conducted to establish the current situation of the microfinance environment, including a description of the market, major actors and a benchmark to other Arab countries and regions. Subject Matter Expert Interviews are also conducted to represent the most current challenges and recommendations for the industry.

This assessment represents a first step of long term process that Silatech is facilitating, with the overall objective to improve access and increase cash flow into successful micro-enterprises, move micro- entrepreneurs to next level of Small and Medium Enterprise, and to generate and effectively increase Youth employment in Jordan.

Recommendations include fields from regulatory and legal adjustments, which are suggested to facilitate the flow of cash; to increased investment, industry clustering and financial acumen training.

Key Takeaways from This Chapter

- The MF Industry in Jordan is highly transparent. Largest MFI providers in Jordan openly share their information on Mix Market and rate highly in global rankings and credit ratings.
- Taxes are not a current issue. Since 2004 all non-profit MFI are tax exempt from the 30-35% tax rate which helps to keep cost low for consumers.
- Due to MFI expansion, there is an increased recognition of the need to have them work under the financial regulatory framework. Need for the creation of a Credit Bureau., this would increase access and growth opportunities.
- There is a need for specific MF lending regulation; unclear situation involves too many actors in MFI coordination. Need simplification and clear roles.
- Regulations should be clear, implemented slowly and in collaboration with current institutions to be successful. Countries with specific regulation on MF show good growth and improved access and attract higher capital flow.
- Interest rates and product offers vary significantly; rates average range between 16-20%, level is overall accepted by beneficiaries. Regulation would allow more homogeneity and rate range fairness.
- Overall good performance of MF sector in poverty reduction: 40% growth in lending, 57% companies sustained in time, 86% projects done by women, 50% increase in people's income. Not significant impact in job creation.
- Continued challenges in industry include: the remote locations/limited markets where MF must provide services, low quality product made, the higher risk levels of customers, complicated documentation to consumer's low to none financial knowledge, bad management of enterprises, women face family issues as business leaders, among others.
- MFI is no longer solely socially motivated, this generates need for more supervision and consumer protection.
- MFIs need to reach further than governmental help and donors; attract private capital; diversify and mobilize savings products.
- Cluster Microenterprises in certain high growth industries can help decrease risk of investments and provide logistic and group coordination.
- Training and mentoring to improve chances of Micro entrepreneurs, specially women, get to the next level of SME
- Facilitate, simplify the lending process.
- Youth empowerment through implementation of mentoring and subsidies or incentives.

Introduction

The global financial and economic slowdown have negatively impacted the Jordanian economy and highlighted demands for a more leveled economic playing field and equity in access to economic and social opportunities. Already challenged in providing jobs to the more than 60,000 youth who enter the labor market annually, Jordan has seen unemployment rising. Youth and women were most affected, with unemployment, reaching 22.8 percent and 22.3 percent, respectively. Moreover, regional disparities continue to pose additional challenges. Limited private sector jobs are available in the outlying governorates, where employment relies largely on the civil service and other public sector jobs. At the same time, the private sector is hampered by difficulties in the business environment and inadequate access to finance. It is increasingly difficult to find employment in either the public or private sectors, thus the increasing emphasis on microfinance as a vehicle for promoting employment and income growth.

Job creation and economic inclusion are key priorities for Jordan today, these goals will be advanced by improving access to finance, enhancing competitiveness, and fostering sustainable, private sector-led growth. To face the central challenge of unemployment, it is critical to promote private sector investment and encourage fast-growing micro, small and medium enterprises (MSMEs), the most significant employment generators. (World Bank, 2013)

This report focuses on the Micro-entrepreneurship Environment in Jordan, its history and current state, how it compares to other players in the region and in the world. Microfinance is usually seen as a "poverty reducer" or "survival" type of financing; The overall objective of a Microfinance Institution (MFI) can be summarized as follows: Provide banking services for low income people, especially poor, in general small loans for short period of time; includes savings, loans, insurance, remittances, and other products; they can help engage in productive activities, expand tiny business to increase income and reduce vulnerability to external shocks. Clients are also looking for money to manage emergencies, acquire household assets, improve homes, smooth consumption, and fund social obligations. Ideal MF candidates work in a stable economy and a somewhat stable income; bottom percentile need safety net programs such as Jordan's "National Aid Fund Ministry of Social Development" (Saqfalhait, 2011).

This report will also summarize current findings, challenges and recommendations to bring some of these microenterprises to the next level of Small and Medium Enterprises, increasing their reach and expanding their chances to become active elements in activating the economy and most importantly effectively generating employment.

Microfinance Offering in Jordan

History

Microfinance in Jordan started in the mid-to-late 1990s, where the Jordanian economy was threatened by an increasingly high unemployment rate, growing poverty and rising prices. The Ministry of Planning and International Cooperation (MOPIC) partnered with the United States Agency for International Development (USAID) in supporting a sustainable microfinance environment through the UD$ 40 million Access to Achievement of Market-Friendly Initiatives and Results (AMIR) program in 1998. Other bilateral and multilateral organizations have been active in the sector, including IFAD (International Fund for Agriculture Development) that has also provided funding for non-governmental organizations (NGOs) and government providers for agricultural loans. (Saqfalhait, 2011)

The market coverage ranges from a low estimate of 30% to a high estimate of 60%, in both cases one of the highest in the MENA region. Current reports indicate the number of loans reaches over 310,000 with $260M in loans (MixMarket, 2014).

For further detail on MFI Market refer to Appendix A.

Table 2.1 MFI Overview, Jordan Market Profile. MixMarket.org

MFI's - most recent data	Report Date	260.8m Loans (USD)	310,352 Borrowers
Alwatani (National Microfinance Bank)	2013-09-30	25,344,348	37,420
AMC	2012-03-31	8,028,846	16,437
DEF	2012	90,657,280	29,245
FINCA - JOR	2012	7,610,301	15,416
MFW	2014-03-31	45,139,958	102,204
Tamweelcom	2014-12-31	36,643,451	71,536
UNRWA- JOR	2013	6,947,990	11,249
Vitas JOR	2014-12-31	40,380,545	26,845

Main Actors in Jordanian Microfinance Market

There are four main categories of microcredit service providers in Jordan: Private MFIs, Commercial Banks, Governmental MFIs, and Non-Governmental Organizations (NGOs).

AMIR was instrumental in creating three large sustainable Jordanian microfinance institutions (MFIs) in the 1990s: Tamweelcom, Alahli Microfinance Company (AMC) and the Middle East Microfinance Company (MEMCC). Additionally, AMIR was providing support to the Jordanian Women's Development Society (JWDS), which became Microfund for Women.

The National Microfinance Bank (NMB or Al Watani), also known as the "Bank for the Poor", was launched in March 2006, followed by new entrant FINCA in 2007. Cairo Amman Bank (CAB) is the only commercial bank providing microloans since 2007.

The Development and Employment Fund (DEF), a quasigovernmental organization which was created in 1991, has played a strong role as both a wholesale and retail lender in Jordan's microfinance sector. The United Nations Relief and Works Agency (UNRWA) began providing microloans in Jordan to Palestinian refugees. Moreover, the private banking sector has been making consumer loans increasingly accessible to those with a salary. Subsidized providers include the National Assistance Fund (NAF), a governmental program aimed at unemployed poor, and the Industrial Development Bank (IDB), a private bank in operation for several decades authorized under special laws with a mixed public/private sector Board. Funding for agriculture is served by government organizations such as the Agricultural Credit Corporation (Saqfalhait, 2011).

For further detail on Major Microfinance Service Providers refer to Appendix B.

Transparency in Jordanian Microfinance Market

The private microcredit sector in Jordan is highly transparent and an industry leader in the Arabic world. Of the three Jordanian MFIs that have been rated in 2007, two were rated A- (MFW and Tamweelcom) and the third (AMC) was rated B+. Additionally, Tamweelcom was ranked the 8th and MFW ranked the 54th in the 2008 MIX Global 100 Composite. All six private microcredit institutions report on their finances and operations to the MIX market, receiving between four and five diamonds (five diamonds indicating the highest level of disclosure possible). Jordan has shown clear interest and active participation in MF pricing transparency, as noted by Chuck Waterfiled, CEO of Microfinance Transparency.

Microfinance Legal and Regulatory Environment in Jordan

Due to the expansion of MFIs it has been increasingly recognized that these institutions should go under the financial sector's regulatory frame work. Incorporating them would help improve access, increase transparency and benefit poverty reduction and economic development.

The lack of a Credit Bureau in Jordan, which has been waiting for official authorization since 2003, has been compensated by the creation of an information sharing platform hosted by Delta Informatics early in 2008, which has provided the loan-tracking system for most MFIs. As a positive result, cross-indebtedness decreased from high level of 30%-40% down to 13 %.

Under Jordanian law, there is no requirement to obtain a governmental license or other permission to lend. In addition, any legal entity may engage in lending. There are currently no specific regulations for microfinance or micro-lending in Jordan. Donor agencies wishing to provide loans to beneficiary groups are, however, required to seek the approval of the relevant ministry and sign a respective agreement.

MFIs are operating in a relaxed regulatory environment, providing them wide latitude to establish their own governance and management policies. As a result, various governmental bodies are engaged in the supervision of microfinance activities, creating confusion and differences in regulation.

The largest microfinance providers are private companies supervised by the Companies Control Department at the Ministry of Industry and Trade (MIT). Most of these companies are registered as nonprofit, with the exception of AMC. They report to the MIT like any other company, by submitting annual reports of the company's activities and audited annual financial statements. MTI collects quarterly information, but does not publish them, nor does it actually conduct supervisory visits and it is unclear whether those at MIT reviewing submitted reports and statements have the financial expertise and a sufficient understanding of the micro-lending sector to meaningfully evaluate submitted documentation. Although the Ministry of Planning and International Cooperation (MOPIC) plays an important role in supporting the industry and requests MFIs to report certain indicators on a quarterly basis, MOPIC's mission is not to act as industry regulator and supervisor. (Saqfalhait, 2011)

CAB's micro-lending activities are supervised by the Central Bank of Jordan (CBJ) since CAB is a regulated and licensed bank. NGO micro-lending operations are supervised by Ministry of Social Development (MOSD). Consequently, a number of governmental bodies are involved in the sector (MIT, MOPIC, CBJ and MOSD), none of which takes direct responsibility for monitoring micro-lending activities as a sector.

By September, 2009, the new Associations Law, required non-profit companies to change their name to "association" and start reporting to MOSD. So, MOSD will supervise those non-profit MFIs that were under MIT authority, with the result that for-profit private micro-lending companies would report to MIT, NGO and nonprofit private micro-lending companies would report to MOSD, and commercial banks providing microcredit would report to the CBJ.

Taxation

The largest MFIs are registered as limited liability companies. Most of these companies are registered as non-profit, with the exception of AMC, which is a for profit company owned by the Jordan National Bank. Until 2004, microfinance companies were subject to 35% income tax applicable to financial institutions. However, in 2004, the Council of Ministers exempted non-profit microfinance companies from all taxes to create a level playing field in the industry given that the newly established National Microfinance Bank (Bank for the Poor) was exempted from all taxes. As well, NGOs are exempted from all taxes. On the other hand, CAB, and any other financial institution that are regulated by CBJ, and AMC and any other for profit private company if exist are subject to income tax (30-35%) from which other microfinance companies are exempted, creating higher costs that would need to be passed on to the client. (Consultative Group to Assist the Poor, 2009)

Interest Rate Policies

With the exception of banks and financial institutions (all of which may charge interest freely), both the Civil Procedural Law of 1988 and the Usury Regulation of 1926 set an interest rate cap of 9 percent on all civil and commercial transactions. Most MFIs are currently charging interest at a much higher rate, which may constitute a violation of the Civil Procedural Law of 1988 and the Usury Regulation, in case MFIs are not considered and treated as "financial institutions". If challenged in court, MFI interest rates run a risk of being deemed illegal under the Civil Procedural Law and the Usury Regulation. To date however, there have been no known challenges to MFI interest rates. (Consultative Group to Assist the Poor, 2009)

Interest rates are typically greater in microfinance firms, as opposed to commercial banks. This is a result of the high expenses related to each small loan, and the higher risks associated with non-collateral loans. Furthermore, micro-finance institutions need to reach the poor and thus operate in rural areas where population density is low (with large covered areas), increasing the cost of operating in these areas.

The Micro-Enterprise Survey conducted in 2009, showed that the majority of loans charged interest rates of 16-20% annually, quite high compared to conventional loan interest rates. Interest rate percentages vary, with governmental institutions charging lower rates than private sector institutions. The majority of microfinance firms charge between 16-20% interest rates. However, despite the high interest rates, 70% of loan takers were comfortable working with the agency they had selected (Ministry of Planning and International Cooperation, United Nations Development Programme, 2011). For a detailed list of Loan Offering and Interest Rates of Microfinance Institutions in Jordan refer to Appendix C.

Performance and Results

Overall there is a good evaluation of the MF Sector. The Microfinance Information Exchange cites the following features confirm the stability of the microfinance sector's growth in Jordan:

- Growth in outreach, amounting to 40%.
- Solid regulation and management of Portfolio at Risk, with the top coverage ratio in the MENA nations.
- High levels of efficiency, compared to the world median.
- Productivity in directing the cost of credit, which grew by 15%, showing overall sector growth.
- Growth in the yield on portfolio, by 3% points, in 2007.

Considering Microfinance as a tool to eradicate poverty, the evidence from Jordan shows that microfinance can have an important role in the creation of sufficient income for the poor by empowering them to start productive micro-enterprises; it is confirmed that microcredit brings additional income to the beneficiaries, with just over 90% of the respondents witnessing an increase of around 50% on their original income, after starting their businesses (Ministry of Planning and International Cooperation, United Nations Development Programme, 2011).

In terms of sustainability of the enterprises funded by Micro loans, of the 192 beneficiaries of microfinance loans from the productive family programs implemented by the Ministry of Social Development, during the period 1992-2006 in Irbid, it was found that 57.6% of the beneficiaries' projects are still functioning, and that 42.4% were failed projects; a significant number. Some of the reasons that these projects fail are the high dependency on over the shelf ideas, with a new product or value added service. This places these enterprises, being primarily informal, within the 'easy enter, easy exit' domain, especially since almost 64% of these projects are trade related, representing almost 36% of loan amounts. Being in the low value added categories implies that only marginal returns are realized from these enterprises. These returns may not be enough to maintain a livable income, with which to support a family and help to repay the loan, eventually resulting in indebtedness and extensive poverty. Also, along with being in the low value added sector of activities, even successful enterprises, which generate sustainable incomes for the owners of the household, frequently remain stagnant in terms of revenues generated, most of these enterprises fail to generate over JD 20 thousand in their annual income (Ministry of Planning and International Cooperation, United Nations Development Programme, 2011)

Finally in terms of employment, microenterprises are low contributors to employment opportunities. Just over 15% of these companies have more than one employee. (And by most definitions, commonly less than 5). Furthermore, when these enterprises tend to secure job opportunities, the majority of employees get paid around minimum wage level. About 91% of these employees receive between 100-200 JDs/month.

Microfinance has been very relevant for Women. Women by far represent the largest target segment of all the micro-credit institutions working in the Kingdom. From the total number of projects receiving financing from micro-credit institutions, women implemented almost 86% of them. Although the amount obtained from loans by women is less than the amount received by men, women still collected approximately 51% of the loans. Women were the largest beneficiaries of these loans, as they made up 81% of employment opportunities generated, as a result of these micro-projects.

Comparing Microfinance in Jordan to the Arab World

The microfinance sector in the Arab region intensified its activities, providing access to financial services to more customers while developing the product range offered. Arab microfinance institutions diversified their lending product mix to include agricultural, consumer, education, housing, and start-up loans, in addition to the working capital loans for microenterprises already on offer. There has been a notable evolution of the microfinance sector in the Arab world. Mainly, Morocco, Egypt, and Jordan which are more mature, and enjoy greater access to funding sources compared to Iraq, Lebanon, Palestine, Sudan, Syria and Yemen, which are young and emerging sectors that are slowly but steadily developing and growing their activities and operations. (Microfinance Information Exchange Inc. and Sanabel, 2009)

The growing enthusiasm for the Moroccan market is closely related to the regulatory environment in the country, which has undoubtedly created a competitive edge, providing a solid ground for developing activities targeted at new sources of funding in the country. Similarly, the regulatory changes that took place in Syria in 2008 allow MFIs to obtain a license to operate under the direct supervision of the Central Bank of Syria. This step aimed to pave the way for additional investment in Syria in the coming years. Recently, In Yemen, the parliament has approved the amendment of the new law of microfinance. This step is meant to promote, develop and diversify the activities of microfinance in Yemen. In Egypt a new Law for the Regulation of Non-Banking Financial Markets and Instruments was approved in 2009 to be administered by the Ministry of Investment. This new code is expected to increase the volume of investment in this sector and encourage the emergence of new statutes regarding microfinance and MFIs, specifically non-bank financial institutions (NBFIs). Despite that the Jordanian market is still unregulated; it is among the most efficient markets in the region. (Saqfalhait, 2011). Before going into deeper detail on Microfinance environment in the region, we present a summary Table 2.2, which situated Jordan in third place in terms of loan borrowers and Loan portfolio.

Table 2.2 Benchmarking MF Sector in Jordan across the Arab Region. Source: 2008 Arab MF Analysis and Benchmarking Report

Country	*Number of Participating MFIs*	*Number of Active Borrowers*	*Loan Portfolio (USD)*
Morocco	9	1,325,243	721,512,669
Egypt	13	666,300	116,602,018
Jordan	6	100,206	93,595,303
Tunisia	1	63,775	22,304,016
Palestine	6	24,699	43,616,249
Yemen	5	18,354	2,079,131
Lebanon	3	17,730	15,260,580
Syria	2	16,297	14,050,128
Sudan	2	6,858	1,708,036
Iraq	1	5,268	8,341,706
Total	48	2,244,730	1,039,069,836

Microfinance in Morocco

The development of the sector in Morocco during its relatively short existence is quite exceptional. In 1999, the government passed the Microfinance Act which provides a legal framework for microfinance in Morocco. By granting explicit authority and certain privileges for micro lending by nonprofit associations the law has been a significant factor in the growth of the sector. The evolution of regulatory frameworks for the Moroccan market has undoubtedly created a competitive edge, providing a solid ground for developing activities targeted at new sources of funding in the country. (Microfinance Information Exchange Inc. and Sanabel, 2009)

The law requires MFIs to register with the Ministry of Finance and, among other stipulations, prohibits MFIs from collecting savings. MFIs are supervised by the Ministry of Finance and are required to be audited. The Ministry also has the authority to impose an interest rate ceiling on microcredit associations. Twelve local nonprofit associations are permitted to operate as micro lenders in Morocco under the 1999 Microcredit Associations Law. Under this law, all must be registered as associations. These are effectively the only players in the microcredit market, as the other available legal forms are not able to operate sustainable micro lending portfolios due to interest rate caps and related loan pricing controls. Commercial banks have established close links with the microcredit associations. For example, the third largest of the microcredit associations was formed and initially capitalized by the Banques Populaires and enjoys strong ongoing support. (Xavier Reile, 2005) Compared to Arab countries, the Moroccan microfinance sector witnessed remarkable growth in both the number of borrowers and the volume of loan portfolio. Morocco dominated the market in terms of volume of assets and loan portfolio which, in 2007, were significantly higher than those of its closest peers, including Egypt. Indeed, Morocco has four times more assets and seven times more loan portfolio than Egypt. (Microfinance Information Exchange Inc. and Sanabel, 2009)

Microfinance in Egypt

Although Egypt boasts three microfinance institutions (MFIs) that rank in the Microfinance Information Exchange’s (MIX) Global 100 Composite Ranking, the country’s microfinance industry overall is underdeveloped relative to the large potential market. The first efforts in establishing microfinance industry in Egypt began in 1990 with the USAID. For almost 20 years, the USAID has provided financial and technical assistant to nine MFIs, each serving a different geographical area with little overlap and minimal competition amongst themselves. During this same timeframe, over 200 additional NGOs began to offer microfinance services. NGO-MFIs are the primary suppliers of microcredit services in Egypt. Fifteen MFIs – mostly NGOs – serve more than 85 percent of the total active clients. The growth levels amongst many of the Egyptian MFIs have quite modest on the past few years. The Egyptian market continued to be underserved. (Microfinance Information Exchange Inc. and Sanabel, 2009) The vast majority of microfinance activity in Egypt is microcredit, while the micro-saving remain non-existent in the Egyptian market. Moreover, few MFIs have introduced micro-insurance. The Egyptian government has historically supported microfinance based on its development strategy which lists poverty reduction as one of its major aims. In 2004, the Central Bank of Egypt led a project for the development of the National Strategy for Microfinance in Egypt. As a result, a supportive infrastructure has been developing. The Egyptian Microfinance Network was established in 2006 to act as representative of the MFIs and the first microfinance policy forum was hosted by the Network to discuss key policy issues affecting the industry and advocate for needed changes. The Network also developed a credit information sharing system. Furthermore, banks have been more engaged in providing commercial loans to MFIs. In 2009 a new Law for the Regulation of Non-Banking Financial Markets and Instruments was approved to be administered by the Ministry of Investment. This new law is expected to increase the volume of investment in this sector and encourage new entrants such international microfinance players. (Sanabel, 2009)

Microfinance in Syria

The Syrian microfinance sector is young and largely untapped in comparison to other Arab countries in the region with the potential demand side of the market stands out as grossly underserved. There are currently six governmental, non-governmental, and donor sponsored organizations in Syria, operating mainly in rural areas where poverty is highest. Moreover, with respect to product diversification, the current providers offer a limited variety of individual (business, consumption, housing, and rural development) and group loans. The Government of Syria has taken a number of significant steps towards developing the industry over the past few years. The most significant achievements have been setting the strategic pillars for the National Strategy for Microfinance as part of the tenth Five Year Plan, and in February 2007 the ratification of the General Microfinance Decree. Effective 2008, the decree authorizes the establishment of "Social Financial Banking Institutions," which may be local or foreign-owned microcredit providers, and are permitted to take deposits and offer other financial services, including micro-insurance. This decree marks Syria as the first Arab country to allow the establishment of deposit-taking MFIs and the transformation of existing programs into regulated institutions. In addition to increasing and diversifying funding sources for Syrian MFIs, the new legal status provided by the decree shall allow Syrian MFIs to provide clients with a wide range of new products and better services. (Microfinance Information Exchange Inc. and Sanabel, 2009)

Microfinance in Lebanon

There are currently 23 Lebanese microfinance programs, many of which charge subsidized interest rates. USAID has provided funding to the sector. The MFIs have achieved national coverage of Lebanon. In terms of outreach, Lebanon is one of the top five microfinance markets in Arab region. The development of the microfinance sector has been slowed down by political conflict and instability that have been part of the country's history. The majority of microfinance programs are structured as NGOs. The vast majority of Lebanese micro-entrepreneurs are restricted to credit. Micro-saving does not exist due to the regulatory structure. Moreover, the Lebanese MFIs have not yet begun to offer micro-insurance to their clients. Regarding legal and regulatory structure, there is no comprehensive microfinance law in Lebanon. Therefore, entities engaged in microfinance activities are regulated based on their registration type. (Sanabel , 2009)

Microfinance in Yemen

MFIs are quite small - majority of programs have less than 3,000 clients, and most MFIs struggling to cover costs. (Burjorjee, 2006) While both average number of borrowers and volume of loan portfolio declined in 2007, the Yemeni sector total asset base increased by 40 percent, signifying increased capital investments that are expected to be translated into higher growth levels in the coming years. Yemeni Government has issued a law for the year 2002, establishing the first Microfinance Bank in Yemen (and the region) under the name of (Al-Amal Microfinance Bank (AMB)), which Started officially in January 2009, but people has little sometimes no information about it. (Microfinance Information Exchange Inc. and Sanabel, 2009) Recently, the parliament in Yemen has approved the amendment of the new law of microfinance banks which authorizes microfinance banks to provide banking service to families, small businesses and smaller projects in the urban and rural sectors in the republic. The law assures the role of the microfinance banks in achieving more economic growth and more social stability. In addition, microfinance banks are expected to contribute in reducing unemployment and poverty. (Central Bank of Yemen)

For Microfinance Experiences and Lessons from Other Regions-Countries refer to Appendix D.

Key Findings, Challenges and Path for Improvement

Challenges to MFI Development

(Ministry of Planning and International Cooperation, United Nations Development Programme, 2011)

1. It is obvious that many constraints limit the growth of micro-enterprises, and these projects usually operate in marginalized places where markets, and potential markets, are limited. Also, the nature of these projects hampers their development, since they are usually trade or service based industries with low value propositions, limiting their growth potential. Furthermore, the minimal returns these projects grant their owners are also limited in their ability to return investment for expansion plans, thus ensuring these projects remain at their current size, and minimizing the likelihood of expansion. It is also the case that MFIs are often considered to have burdensome application procedures (that are often as complicated as regular banks), which often acts as a deterrent to applicants.

2. Other challenges that were reported by microenterprise owners, which if not properly addressed, would impair their growth potential, include: difficulty in dealing with project documents and records, difficulty in creating networks; reductions in capital; and the low quality of products/services due to unqualified workers. This calls for additional services, that should be combined with MFIs, such as technical upgrading and modernization services. Other reported challenges included bad management, being busy with other family matters, health issues, licensing issues, financing and the limited availability of products due to a lack of cash.

3. In addition, the demand for micro-credit, from those with low incomes, is limited. This is due to a lack of information regarding the benefits of micro-finance, as well as a lack of successful role models. Not only are there limited market opportunities, but those who actually do apply, find that the transaction costs (such as time and documentation needed) are quite high, in comparison to the money they borrowed.

4. Even with moderate improvements, interest rates on micro-finance loans are still excessive, as opposed to commercial banks. Rates are also excessive, compared to the return on investment rates of projects typically found in rural areas.

5. As women are the main target of the micro-credit institutions, such institutions will have a remarkable impact on the individual woman. However, female entrepreneurs in microenterprises face problems at the startup phase, where almost 45% of the women surveyed faced problems with their families, while 35% faced problems with finding proper child care.

Recent Reforms to Develop Micro, Small and Medium Enterprises in Jordan

(World Bank, 2013)

Despite these challenges, there is, nevertheless, potential for growth of the MSME sector in Jordan. Jordanian authorities have recently made significant strides to improve the enabling environment for MSMEs, including steps to improve SMEs access to finance. Key steps (that apply to Micro-enterprises) that have been taken include:

1. Strengthening the capacity of financial institutions, banks, and Non-Governmental Organizations (NGOs)-MFIs, to enhance MSMEs access to finance.
2. Preparing a National Startups and MSME Strategy, that is led by the Jordan Enterprise Development Corporation (JEDCO).
3. Approving basic mobile phone payments, and the enactment of its guidelines. Working on adopting a comprehensive secured transactions law and the development of a collateral registry.
4. Strengthening the financial institutional infrastructure, including, lowering the threshold for reporting to public credit registry.
5. In the process of establishing the first private credit bureau that would help in improving banks financial intermediation, and enhance the accuracy and timeliness of the information on client credit worthiness.
6. Issuing Circular No. (10/5/436) dated 2011, setting a standard definition for SMEs.
7. Modernizing the reporting and monitoring system for banks.
8. Enhancing the capacity of banks to enable them to increase their share of lending to the MSME segment through adopting more advanced transaction lending techniques.
9. Licensing of new bank branches in Governorates that were underserved to reach out to the marginalized segment of enterprises.
10. The Association of Banks in Jordan has also developed a directory of products and services provided by banks operating in Jordan with a specific section dedicated to MSME products.
11. Issuance of “Treating Customers Fairly Instructions”, which aims at enhancing consumer protection.

The building blocks above have contributed to MSMEs growth and expansion in Jordan, and resulted in the emergence of a more positive enabling environment, which should help these enterprises in contributing to job creation, and overall economic growth.

Lessons for Microfinance Regulation in Jordan

(Saqfalhait, 2011)

1. The special features of microfinance that need to be accommodated within the regulatory structure include: a) its attempt to deepen financial markets to serve microenterprises and poor households; b) its high unit costs of lending; c) its approach of physically taking banking services to clients who have few other options to receive financial services; d) the relatively undiversified and sometimes volatile nature of MFI credit portfolios; e) the fact that most MFIs began as unregulated credit NGOs, with a focus on social goals rather than financial accountability and sustainability; f) diversity of institutional types, with some

MFIs clearly profit-oriented while others are committed to providing services to the poorer segments of the population on a non-profit basis, creating very different cost structures and funds sources; g) and the market risk posed within the microfinance sector itself when MFIs (especially large ones) are not properly managed and monitored.

2. For regulation to be reasonable, sequence of questions about a proposed plan of regulation should be answered such as: a) What are the existing market conditions? What are the related issues or problems? Whom does it affect? b) What would happen if no action were taken? What is the risk and how great is it? c) To what degree is it feasible to solve the issue or problem through regulation, can government realistically do anything about it? d) Are there mechanisms other than regulation, which would achieve the intended objectives more cost-effectively? e) What are the likely direct and indirect costs of fulfillment with each alternative? f) Are the proposed enforcement mechanisms practical, realistic, and cost effective? The answers to these questions have implications for the decision whether to regulate, as well as the scope and design of any regulatory regime.
3. Microfinance sector institutions are no longer solely socially motivated. Due to the growing perception that it is possible to earn high returns through microfinance lending, commercially driven entities are also being attracted to the sector. This further underlines the need for supervision and consumer protection.
4. The development of legal and regulatory frameworks for microfinance is, like all policy ventures, a question of trade-offs. The touchstone is the achievement of sustainable financial deepening, and extension of services to the unbanked and the less well-off. The key trade-offs, then, concern how much of an increase in access can be gained, at what cost, using which policy tool. Hence, careful impact assessment (RIA) is needed.
5. In order to reach significant scale and to provide adequate service to clients, microfinance institutions need to go beyond government and/or donor support to attract private capital and to mobilize savings. To achieve this goal, MFIs need proper, facilitative legal and regulatory environment.
6. An independent body needs to be set up with clearly defined powers for the enforcement of rules and regulations. The board of the regulatory authority should be fully representative of all stakeholders. Once regulation put in place, it is essential to ensure the availability of sufficient regulatory capacity with trained and empowered supervisory authority. Regulator capacity is key in the success of any regulation.
7. Prudential regulation must be avoided to non-deposit takers. For prudential regulation, it is also vital to avoid licensing very weak institutions that cannot be effectively supervised. A special (non-prudential) regulation, focusing on consumer protection and good business conduct, is necessary as the MF industry grows. The laws and regulations should be strong and enforceable though non-prudential in nature.
8. Standard banking regulation and supervision tend to impose ineffective and overly heavy requirements on MFIs if applied without modification. It is equally important to allow for innovation at the lower levels, especially among small informal institutions, by exempting them, in whole or in part, from full registration and regulation.

9. Preventing over-regulation is at least as important as putting well-tailored rules and systems in place. Regulation of microfinance is likely to create problems. Consequently, microfinance regulation should be "light-touch," focusing on market safety and soundness principles applicable to the financial markets as a whole.
10. Savings is a very important financial service for the poor and, given that savings needs of the poor are not being met by commercial banks, government authorities should organize efforts to understand the nature and level of demand for micro and small savings services and the types of products which would best serve the low income market.

11. The lack of regulatory awareness raise certain issues which could influence the long-term success of the sector including consumer protection mechanisms addressing appropriate disclosure, safeguarding consumer privacy and rights, procedures by which MFIs may qualify for exemptions from the interest rate cap imposed by the Civil Procedural Law and the Usury Regulation, and the lack of regulated and effective credit bureau to prevent client over-indebtedness and minimize the credit risk for MFIs.
12. Currently, tax exempt status is not provided automatically, requiring new entrants into the market to seek such exemption before starting operations. A more streamlined approach by which all registered micro-lending companies automatically qualify for the same tax exemption would facilitate the entry of new market players.

Recommendations to Enhance the Effectiveness of Micro, Small and Medium Enterprises

(Ministry of Planning and International Cooperation, United Nations Development Programme, 2011)

The Jordanian government took significant steps to improve the efficiency with which companies interact with the government, including reducing the number of offices needed to register a company, to one, as well as introducing online payment of tax revenues and the establishment of a commercial court. In addition, the government reduced the registered capital required to form a limited liability company from JD 30,000 to JD 1,000. These have helped greatly. However, much remains to be done. Here are some of the main recommendations (applicable to Microfinance)

- **Institutional Coordination**: Increased coordination among the different institutions serving the sector is required, to ensure an efficient allocation of resources. Many institutions play the same role as others and cooperate in serving the same targeted group or sector. A national strategy and action plan should be developed to set and define the role of each stakeholder, in the development process, linking the different stakeholders in order to increase the level of cooperation amongst them, when serving MSMEs. The strategy shall also define applicable KPIs to measure the success and sustainability of the initiatives and programs serving the sector.

- **Cluster Groups**: The government could also encourage MSME cluster groups, by improving the logistics situation of Jordanian MSMEs and organizing purchasing groups. Promote the benefits of linking with other firms, whether horizontally or vertically.

Cluster associations will improve strategy; create innovation, through learning from best practices that could lead to higher-end employment opportunities. Adopt measures to strengthen linkages among MSMEs within the geographic boundaries of their clusters and among clusters to develop further specialization and competitiveness, which will lead to employment, higher wages and welfare. Create value-chain through the arrangements of buyer groups, along with providing incentives for participating firms, through programs such as the Cluster Development Program, in India.

- **Bringing Successful Microenterprises to the next level**: Activities could include making the registering of a business much easier, by minimizing the costs and time required to register, streamline and minimize the methods for obtaining credit, so that entrepreneurs will have a source for their start-up capital. Review taxes, procedures for filing for bankruptcy, and labor/union issues. Consider lowering the minimum capital requirements, by allowing some businesses to operate from homes, especially those owned and run by women.

- **Appropriate training**: Increase investment in training for Micro entrepreneurs, by supporting on the job training, subsidized training, and initiatives such as "centers of excellence". Focus on providing sponsored training and education matched to market needs, as well as focusing on promoting the concept of entrepreneurship within the educational curricula.

- **Female Entrepreneurship:** Increase funds, loans and programs that encourage investment in MSMEs, in order to create a more equitable distribution of income, especially amongst women. Female entrepreneurship should be encouraged and dedicated funds for this purpose coupled with significant improvements in training (enhancing analytical, communication, and team working skills, along with more relevant and specific technical/vocational training), and the removal of geographic impediments to employment.

- **Youth empowerment**: Provide more advanced mentorship and support structures than currently exist. Incentive schemes, tax holidays, and seed capital can help youth owned startups. Consider part-time youth employment and encourage enterprises to partake in the drive through funding (partial or full) of on-the-job training.

- **Micro-enterprise and micro finance:** Increase support to micro-enterprises, as an attempt to help disadvantaged people attain their independence through training, grants and low interest loans with a quota of loans for the poorest sectors of the population. Reduce the legal obligations, paperwork and bureaucracy inherent in establishing a micro-enterprise. Invest in Jordan's 'poverty pockets,' so that the investments target those most in need.

Conclusion

A relatively equitable distribution of capital, both social and commercial, is essential for diminishing poverty. Microfinance can assist in equitable human development by providing a greater number of people with access to capital, and by generating the induced employment obtained when entrepreneurs invest this capital in their communities and the overall economy. It is evident that microfinance can have an important role in the creation of the necessary, initial, distribution of physical assets, to the 'near poor'. However, the core poor need microfinance programs to increase their outreach, through the reduction of interest rates and more focused strategies.

Micro-enterprises are important instruments in promoting human development in Jordan, as they offer the opportunity for entrepreneurs to take control of their lives and increase their standards of living, with relatively small capital investment. Owning a micro-firm significantly improved the lives of the owners in many ways, for example, allowing them to obtain public insurance, as well as to join the professional associations and labor unions and the chambers of trade and industry.

It should also be noted that microenterprises are a boon to women; almost 90% of women experienced improvements in disposable incomes and personal independence. Also, more women find themselves in a position of assertiveness and authority after opening their own business. When a woman opens her own business, almost overwhelmingly they hire other women, thus increasing the number of women in the workforce.

Micro-enterprises are often trapped in low-growth sectors with high competition and limited returns. Microfinance programs need to diversify their product portfolios and expand to include the savings aspect of microfinance. Legal restrictions on these issues need to be addressed, in order to allow microfinance institutions to offer savings to the less advantaged sectors of the population; MFIs need to have some provisions to help support micro-enterprise growth.

The government should also start investing in micro-finance firms, in order to increase the amount of capital microenterprises can obtain, however, with this investment should come certain preconditions, such as ensuring microfinance institutions are more accessible and affordable. Not only should investment in microenterprises be improved, but professional associations should be created to support their specific needs, especially in terms of growth and loan guarantees to bypass collateral requirements.

Programs in Jordan should be created, similar to the ones created by institutions such as BRAC and ASA in Bangladesh, which might offer Jordanian microenterprises help, including training and medical care, grants and credit, all so that the most disadvantaged will have enough savings to create a micro-finance program. Savings services may be an additional source of support. (Ministry of Planning and International Cooperation, United Nations Development Programme, 2011)

Though the key challenge of how to increase employment opportunities and bring some successful microenterprises to the next level still remains, this reports points to many identified areas of improvement to begin policy actions and a path forward leaving a prosper future for Jordanian Youth.

Appendix

A. Jordanian MF Market Overview, Organizations

(MixMarket, 2014)

Table 3.3 MFI Organizations, Jordan Market Profile. MixMarket.org

Funders (3)	Number and Names of Related MFIs	
AECID www.aecid.es/en/index.htmlwww.aecid.es/...	1	MFW
Incofin Fund	1	FINCA - JOR
LMDF www.lmdf.lu	1	AMC

Networks (8)	Headquarters	Number and Names of Related MFIs	
Tanmeyah www.tanmeyah-jo.org	Jordan	8	AMC Al Ameen Alwatani (National Microfinance Bank) FINCA - JOR MFW Tamweelcom UNRWA- JOR Vitas JOR
Sanabel www.sanabelnetwork.org	Egypt	6	AMC Alwatani (National Microfinance Bank) DEF MFW Tamweelcom Vitas JOR
MFN www.mfnetwork.org	United States	2	Tamweelcom Vitas JOR
AUSE www.sfdegypt.org/...	Egypt	1	DEF
FINCA International www.FINCA.org	United States	1	FINCA - JOR
Global Communities www.chfhq.org	United States	1	Vitas JOR
Grameen Foundation www.grameenfoundation.org	United States	1	Tamweelcom
WWB www.womensworldbanking.org	United States	1	MFW

Service Providers (5)	Type	Number and Names of Related MFIs	
Kiva www.kiva.org	Peer-to-peer Lender	2	Alwatani (National Microfinance Bank) Tamweelcom
Microfinanza Rating www.microfinanzarating.com	Rater	1	UNRWA- JOR
Planet Rating www.planetrating.com	Rater	2	MFW Tamweelcom
PlaNIS www.planis.org	Fund Manager	1	Tamweelcom
SIFRA	NGO	1	Tamweelcom

B. Major Microfinance Service Providers in Jordan

(Saqfalhait, 2011)

Non-Profit Private Microfinance Institutions

- **National Microfinance Bank (NMB or Alwatani)**
  A private share-holding non-profit company established through a partnership between the King Abdullah II Fund for Development, AGFUND (Arab Gulf Program for United Nations Development Organizations), and two private sector investors. The special law exempts NMB from supervision by the Central Bank and from a wide array of taxes and duties and permits NMB to offer both conventional and Islamic lending products. The bank disbursed its first loan in March 2006 and has rapidly assumed an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market. The main funding sources are loans and shareholder capital. It provides loans, training, and consulting services.

- **FINCA – JOR**
  A private share-holding non-profit company established by FINCA International. FINCA stands for the Foundation for International Community Assistance. Established in 1984, FINCA is best known for having pioneered the "Village Banking method"--one of the major forms of microcredit--and for leadership in microfinance overall to provide financial services to the world's lowest-income entrepreneurs. FINCA entered Jordan in late 2007 and is not present in any other countries in the Arab region. FINCA-Jordan has also rapidly considered as an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market. Its main funding sources are grants and shareholder capital. It mainly provides loans.

- **Middle East Microcredit Company (MEMCO)**
  MEMCO started as a Cooperative Housing Foundation (CHF) affiliate program in 1998, transforming in 2003 into a Limited Liability Company, with plans to operate in rural areas. It was born in a project set up by three main Jordanian banks and a domestic foundation to provide microfinance services to low and middle income Jordanians, especially micro and small enterprises. Its main funding sources are grants and loans. It mainly provides loans.

- **Microfund for Women (MFW)**
  MFW began as a pilot lending program initiated by Save the Children in Jordan in 1994. Later, in 1996, it operated as a local NGO known as the Jordanian Women's Development Society (JWDS) which took over the Group Guaranteed Lending Program with the dual purposes of testing the feasibility of group lending in Jordan and providing poor women with access to credit mechanisms. And finally, in 1999 Microfund for Women was registered as a not-for-profit limited liability company. MFW is a leading microfinance institution in Jordan. It is a pioneer in microcredit, both nationally and regionally. Primarily, MFW targets female entrepreneurs who require financing to expand or improve their existing income-generating projects or businesses. Its main funding sources are loans and it mainly provides loans.

- **The Jordan Micro Credit Company (Tamweelcom or JMCC)**
  Tamweelcom was established in 1999. The company is fully owned by Noor Al-Hussein Foundation (NHF), which operates as an independent entity under the umbrella of the King Hussein Foundation (KHF). Tamweelcom disburses loans to low-income individuals and un-bankable clients. Its main funding sources are grants and loans. It provides loans, insurance, training and consulting services.

For-Profit Private Microfinance Institutions

- **Ahli Microfinance Company (AMC)**
  AMC was established in mid-1999, and it is considered to be the first for-profit private microfinance institution that operates in this field. It is owned 100% by Jordan National Bank, a private commercial bank. Its main funding sources are grants and shareholder capital. It provides loans, training, consulting, and services.

Financial Institutions

- **Cairo Amman Bank (CAB)**
  CAB is the only commercial bank directly engaged in micro-lending. CAB benefited from technical assistance provided by CGAP's retail advisory service program. CAB began extending micro-loans in 2007. At yearend 2008, it had 2,099 outstanding loans with an outstanding portfolio of JD 1.7 million (USD 2.4 million).

Government Organizations

- **Development and Employment Fund (DEF)**
  DEF was established after a minister's council decision on 1989. As a public "governmental" establishment, this fund takes care of development and finance of small business projects. The fund started its operations in February of 1991 under the umbrella of Industrial Development Bank. However, it became independent after inaction of its private law on 1992. Consequently, the fund has been enjoying its financial and administrative independence. DEF acts as both a direct retail lender and governmental wholesale lender to MFIs. Between (1991-2007) DEF total lending amounted to JD (95,9) million to finance more than 33250 projects, created 41048 seasonal and permanent job opportunities. The main funding sources are grants. It provides loans, training, consulting, and fund transfer services.

Non-Government Organizations NGO's

Various NGOs offer micro-lending as one of several services. Some NGO microcredit programs have been subsidized. However, some (such as programs administered by UNRWA and the Jordan Hashemite Fund for Human Development (JOHUD)) appear to be shifting in the direction of self-sustaining lending in line with industry best practices. According to the National Microfinance Strategy, there are approximately 200 local microcredit schemes operating as village banking. Some of these self-help groups are supported by donor funds; others are supported by bigger NGOs.

C. Loan Offering and Interest Rates of Microfinance Institutions in Jordan

(Ministry of Planning and International Cooperation, United Nations Development Programme, 2011)

Development and Employment Fund			
Credit Program	*Loan Ceiling (JD)*	*Annual Interest Rate (%)*	*Loan Repayment Period, Years*
Establishing New Projects	15,000	6.5%	6
Developing Existing Projects	15,000	7.5%	6
Financing Pioneer Projects	50,000	9%	6
Financing Social Projects	100,000	6.5%	6
Empowerment of Rural Woman	2,000	6.5%	6

Agricultural Credit Corporation			
Credit Program	**Loan Ceiling (JD)**	**Annual Interest Rate (%)**	**Loan Repayment Period, Years**
Mid-Term and Long Term Loans	(1 - 20,000)	(6.5% - 9%)	N/A
Seasonal and Short Term Loans	(1 - 20,000)	(6.5% - 9%)	N/A
Poverty and Unemployment Reduction Program	3,000	5%	5

Jordan Micro Credit Company			
Credit Program	**Loan Ceiling (JD)**	**Monthly Interest Rate (%)**	**Loan Repayment Period, Months**
Cooperative Loan	(200 – 600)	1.9%	12 – 15
Hope Loan	(300 – 1,500)	1.7%	10
Vocational Loan	(300 – 3,000)	(1% - 1.4%)	4 – 24
Progress Loan	(1,500 – 5,000)	(1.25% - 1.4%)	4 – 24
Pioneer Loan	(5,001 – 25,000)	(1.25% - 1.4%)	4 – 24
Seasonal Loan	(120 – 150)	(1. 5% - 2%)	6

Ahlia Micro Financing Company			
Credit Program	**Loan Ceiling (JD)**	**Interest Rate (%)**	**Loan Repayment Period**
Startup Loan	400	(1% - 1.5%) Monthly	10 Months
Home Loan	1,500	(1% - 1.5%) Monthly	1 Year
Development Loan	10,000	(1% - 1.5%) Monthly	2 Years
Incorporation Loan	10,000	(1% - 1.5%) Monthly	3 – 6 Months
Auto Loan	15,000	9% Annually	4 Years
Middle East Micro Credit Company			
Credit Program	**Loan Ceiling (JD)**	**Annual Interest Rate (%)**	**Loan Repayment Period, Years**
Individual Projects	2,500	8%	3
National Microfinance Bank			
Credit Program	**Loan Ceiling (JD)**	**Monthly Interest Rate (%)**	**Loan Repayment Period, Months**
Product One (Watani)	(200 – 1,000)	15%	(1 – 15)
Product Two (Mashrooie)	(1,001 – 5,000)	12%	(1 – 30)
Product Three (Istithmari)	(5,001 – 15,000)	9%	(1 – 48)
Product Four (Ibdaa')	(1,000 – 15,000)	8%	(1 – 48)
Product Five (Hasoubie)	(400 – 2,000)	N.A	(1 – 24)

Micro-fund for Women			
Credit Program	***Loan Ceiling (JD)***	***Monthly Interest Rate (%)***	***Loan Repayment Period, Months***
Solidarity Loan (3 – 6 Women)	600	1.75%	(10 – 15)
Developing Existing Projects Loan	10,000	(1% - 1.5%)	(1 – 36)
Seasonal Loan (2 – 5)	200	2.5%	6
Startup Loan (2 – 3)	200	2%	10
FINCA Jordan			
Credit Program	***Loan Ceiling (JD)***	***Monthly Interest Rate (%)***	***Loan Repayment Period, Months***
Women›s Solidarity Loan	800	(1.6% - 1.8%)	18
Individual Micro Loan	4,000	1.7%	20
Startup Loan	2,000	(1.5% - 1.7%)	20
MSME (Opportunity) Loan	20,000	(1.35% - 1.5%)	36

D. Microfinance Experiences and Lessons from Other Regions-Countries

(Saqfalhait, 2011)

Latin America

Microfinance in Bolivia

The leading MFIs were founded in (1986) and operated as microcredit NGOs. In 1992, a transformation process of the leading NGOs into regulated financial intermediaries' process began. Over the next several years, the industry achieved relatively high growth rates, but also began to suffer from significant systemic risk due to the over-indebtedness of a large number of clients. During that period the Bolivian banking authorities generated the special non-bank license for finance companies. The Bolivian case, one of the best-known in the field, illustrates the importance of a patient market-development strategy implemented by a highly capable supervisory agency. The Supervisor allowed experimentation, and engaged the sector in ongoing dialogue while elaborating its regulatory approach. Gradually MFIs were brought into the regulated sector, with the prospect of increasing their range of services from that point. Both the supervisor and the sector avoided promotional schemes and subsidies. This helped bring about a 20-fold increase microfinance portfolios in the 1990s, and steady downward pressure on interest rates. The gradual introduction of deposit services in the sector led to an expansion of savings, which cover some 60% of the overall loan portfolio in 2006. By that time, regulated MFIs had a total of 145 branches in urban areas, and 61 in rural areas, while unregulated MFIs had an additional 106 in urban and 117 in rural areas. (Patrick Meaghe, 2006)

Over the past two decades, the Bolivian case has been amply recognized as a source of best practices for the rest of the world. In particular, Bolivia has been a leader in innovations in lending technologies and in the creation of appropriate institutional and regulatory frameworks. Actually, neither the history of the microfinance industry in the world could be written without referencing the exceptional achievements of the Bolivian microfinance institutions and their global contributions, nor the recent economic history of Bolivia could be written without mentioning the significant contributions of microfinance institutions to the development of the country's financial system.

Microfinance in Brazil

This is a case of disappointed expectations resulting from a restrictive policy framework overlaid on a relatively underdeveloped sector. The microcredit industry has reached only about 2 to 3 percent of the total potential market. (Serpa, 2008) This is despite the fact that the first microenterprise credit program in the continent was started in Recife, Brazil in 1972, and despite the fact that the government has undertaken a number of initiatives to stimulate the sector over the past two decades. Growth has been painfully slow for the last 25 years and only recently has begun to accelerate more rapidly. Indeed, the absence of competition and crowding out by public sector, government policy and intervention in the market, lack of well-defined legal and regulatory framework and lack of macroeconomic stability represent the most significant barriers in the microfinance sector.

Microfinance in Mexico

One might characterize this as an intermediate case, one where there are growth trends and promising regulatory developments that have not yet completed. Mexican microfinance has taken a range of forms, primarily financial cooperatives (savings and loan coops, credit unions, and others), but also small credit only finance companies and NGO-MFIs. In 2001, government and advocates from the sector launched a high-profile policy initiative that shortly led to a law, and then to a complex implementation process. Because the implementation of the 2001 Law has been delayed as supervisory matters are sorted out, it is not yet fully clear how these regulatory changes will affect the sector. The sector has grown 20% annually since the law was approved, but there is insufficient evidence to attribute this positive result to the new law's impact. The reform process may have contributed, but a host of other factors did so as well. (Jacques Trigo Loubiere, 2004) (Patrick Meaghe, 2006)

Africa

Microfinance in Ghana

Ghana's early ventures into microfinance policymaking were unsuccessful. In particular, the framework for rural banking led to rapid entry and expansion that brought large numbers of small institutions under Bank of Ghana supervision – far exceeding its available capacity. This inevitably led to failure and restructuring in the sector, with subsequent policy severely tightening entry and prudential standards. During the same period (mid-1990s), the government implemented an anti-poverty strategy with a focus on microfinance. Unfortunately, this encouraged subsidized credit programs rather than a focus on developing a framework for sustainable market development. More recently, the Bank of Ghana issued new rules that reflect greater understanding of the sector and that may support growth with discipline. (Patrick Meaghe, 2006) In fact, prudential requirements including high reserve requirements and high minimum capital requirements in addition to low interest rates requirements and directed subsidized lending constitute the major constraints facing the provision of microfinance services in Ghana.

Microfinance in South Africa

In the early 1990s, South Africa decided to legalize the existing informal moneylending industry, which was growing rapidly, under an exemption to the usury limit. This led to even more explosive growth, with attendant problems of abusive practices, over-indebtedness, and a widespread perception that the sector was overcharging and failing to meet the investment needs of the majority population. In response, the Micro Finance Regulatory Council (MFRC) was created in 1999 to monitor micro lending activity and to register micro lenders interested in achieving an exemption to the 1992 Usury Act. The MFRC has been an active regulator, pushing the limits of its jurisdiction in the interest of helping develop a sound market through the strict application of standards. Among its areas of activity are enforcing consumer protection rules, addressing over-indebtedness, and setting-up and running a National Loan Registry. The MFRC has also played a major role in information, research, and policy advocacy. Partly as a result of its efforts, South Africa started considering a new legislative framework providing for a higher-profile credit regulator, consumer credit standards that apply to all financial transactions, and a new law on narrow banks to serve the lower end of the market. Under these policies and the MFRC's stewardship, South Africa has developed a micro-lending market comprised of some 5.5 million loan accounts and U.S. $3 billion in outstanding loans. The major challenge facing South Africa's microfinance industry is that there is no comprehensive national microfinance policy. (Patrick Meaghe, 2006)

Asia

Microfinance in Indonesia

Indonesia has a century-long history in microfinance that dates back to Dutch colonial times at the close of the 19th century. It represents a successful case of microfinance sector with some 44 million depositors, 30 million borrower, and U.S. $141 billion in assets. (Patrick Meaghe, 2006) Indonesia was one of the first countries to develop commercial microfinance in Asia, with regulated financial institutions providing the bulk of microfinance services throughout the archipelago. In addition to the success of commercial microfinance providers, Indonesia has also been a favorable ground for the development of numerous subsidized government programs, local and community-based financial institutions, cooperatives and NGOs. In fact, Indonesia has a diversified microfinance sector with a wide array of providers, from village banks to local microfinance banks and rural banks. There have been some weaknesses in governance and oversight in these sectors, but since the early 1990s, Indonesia has been addressing these by harmonizing standards, and delegating supervision while building mainline supervision capacity in Bank Indonesia, the central bank of Indonesia. This dispersed and decentralized system provides deep outreach to the most distant communities and to the poor (if not the poorest). Current efforts focus on continued harmonization of standards for village banks and local microfinance banks, and elaboration of a microfinance strategy. NGOs play a less significant role in microfinance in Indonesia than in virtually any other country in the world.

Microfinance in the Philippines

The Philippine experience in microfinance provides a number of valuable lessons for other countries striving to integrate microfinance into the financial sector. Despite that the market-oriented and commercially-focused microfinance in the Philippines is a relatively new development in comparison to other countries, these institutions have achieved strong outreach. There is a diverse array of microfinance providers including NGOs, rural banks, and cooperatives. The challenge here has been to counteract a previous policy emphasis on state intervention through heavy regulation and subsidized credit provision. Since the mid-1990s, the Philippines has articulated a microfinance policy and enacted an amended banking law enabling MFIs to take deposits and to set the terms of their financial services independently. A number of agencies have stepped in to push forward the processes of market development and strengthening of sectorial governance. This includes the Bangko Sentral ng Pilipinas (BSP), the Central Bank of the Philippines, which has played a lead role in tailoring certain regulatory norms to support MFI operations, providing market infrastructure, and, very importantly, building sufficient internal supervisory capacity to deal effectively with the sector. BSP has also delegated some responsibilities, notably putting the credit unions under the supervision of their apex institution, and less formally encouraging standard-setting and creditor oversight of the NGO-MFIs. Other agencies include the National Credit Council, which has guided microfinance policy, the Microfinance Council of the Philippines, which has helped generate voluntary standards for NGO-MFIs, and Credit and Finance Corporation, a government–owned finance company, which has played a key role in wholesale financing for the sector. Through all this, the Philippines has developed a market with some 1.5 million clients and U.S. $1.3 billion in loans –with relatively low barriers to entry, and notably without a specific law on microfinance. (Patrick Meaghe, 2006)

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Chapter 3: SME Financing in the Hashemite Kingdom of Jordan

Executive Summary

This chapter outlines the challenges to small and medium-sized enterprise (SME) lending in Jordan. By examining existing research, this chapter provides a summary of the importance of SMEs to Jordan's economy and the current struggle business owners face in accessing much-needed financing and related services. For an emerging economy like Jordan, SMEs fuel job and economic growth. Yet, like many emerging economies, there is a disconnection between the needs of entrepreneurs and traditional lending institutions. Addressing these issues would help improve the business environment for SMEs, thereby increasing SME success while spurring job growth and reducing unemployment.

- In Jordan, SMEs are 99 percent of all private firms and employ 77 percent of the private sector workforce, yet they receive only 13 percent of total value of commercial loans.
- Accessing finance is the greatest challenge reported by SME business owners in Jordan.
- Many entrepreneurs in Jordan lack a formal financial history there is a primary reliance on cash transactions for their day-to-day needs and only 25 percent (ages 15 and over) report having an account at a financial institution.
- Lack of collateral, limited offerings of Islamic financial products and lack of transparency limit SME business owners' ability to attain financing.
- Incomplete credit data, low financial literacy of customers, and a large informal economy are among the primary challenges banks face for SME lending in Jordan.
- A funding gap for firms needing US$50,000 to $2,000,000 in financing has been identified as the "missing middle" inhibiting growth of many SMEs.

Introduction

This chapter provides a broad-level overview of the challenges of small to medium sized enterprises (SMEs) face accessing finance in Jordan. The key finding is that a "missing middle" funding gap exists for SMEs as a result of various challenges SMEs face in accessing finance from traditional lenders as well as the challenges banks face lending to SMEs. SMEs are seen as the engine of job growth and in recent decades a great deal of attention and emphasis has been applied to fostering a business environment in emerging economies to promote SME growth.

No two enterprises are the same but comparing the experience of one entrepreneur with that of another can be enlightening. The nuances and subtleties experienced by an entrepreneur as they move through stages of business development are shaped by internal and external forces. These forces include such things as education, culture, innovation, access to financial resources, market connections, customer service, business regulations and personality. While many entrepreneurs confront the same challenges, it is important to note that the successful startup of any firm inevitably entails adaptation, resourcefulness and reinvention.

Jordan is experiencing its own reinvention buoyed by stability and relative prosperity compared to other countries in the Middle East and North Africa. But the Arab Spring was a pause for concern and revealed some vulnerabilities in Jordan's stability. The country's GDP growth rate fell during the recent global economic crises and the unemployment rate, particularly among youth and women, continues to remain stubbornly high at 12 percent (Assaad, 2014). In addition, Jordan's business environment has much room to improve among business benchmarks, such as the World Bank's Doing Business Report. In 2014, as noted in Chapter 1, Jordan's business environment was ranked 117 out of 189 countries around the world, a slight improvement over the previous year, and 11th in the MENA region (World Bank, 2014).

Jobs are thus an important focus of the Kingdom but the solutions require varied policy actions, each with their own tradeoffs. The Jordan government has taken monumental steps to expand the post-secondary education system, liberalize business regulations, invest in business development and partner with others in the West to open up markets, but more needs to be done.

In recent years, private enterprise, particularly SMEs, has overtaken the government as the primary engine of job growth in Jordan. Focusing on the SME sector and expanding opportunities for their success would help to spur growth of these enterprises and improve opportunities for employment.

This chapter summarizes and builds upon existing research. In doing so, this report provides a starting point for broader policy work and market interventions to address a credit gap in Jordan. First, this chapter helps to define the SME experience in Jordan, the impact of SMEs on the greater economy and the importance of financing for SME success. Because SMEs are crucial to job growth in emerging economies, it is important to understand their perspectives and experiences.

Second, this chapter then provides an alternative angle on the SME finance challenge with a review of the current banking environment in Jordan, the current roles banks play in financing SMEs and the challenges banks face working with SMEs. Because a gap in credit is also a missed opportunity for banks, understanding their perspectives and experiences could help to unlock additional capital for SMEs as well as additional revenue for lenders.

Third, this chapter provides a comparison to the SME finance experience in other countries in the Middle East and North Africa (MENA) as well as several countries with similar governance, population, GDP and development. At the end of the report is a comparison to Gabon, Belarus, Azerbaijan and Lebanon. Comparing the countries side by side reveals some interesting similarities and differences, including opportunities for Jordan to advance their SME finance agenda more effectively.

Review of Sources for this Report

There is an extensive body of research and literature available for the topics of labor, economic development, business environment and entrepreneurship in the Middle East and North Africa. Studies specific to Jordan are more limited, and even less is available for the SME finance sector. For this report, existing desk research was reviewed to provide a foundation for examining the challenges associated with SME financing in Jordan.

Labor topics have been monitored by the Jordan Department of Statistics (DoS) Employment and Unemployment Survey (EUS) as well as the Jordan Labor Market Panel Survey (JLMPS). Assaad and others provide an in-depth analysis of the current state of the labor market in Jordan, paying special attention to the labor flows, the presence of foreign workers in Jordan and the dynamics of labor market participation along many variables. Special attention is paid to younger workers and the impact of informal business and economic activity (Assaad, 2014).

The World Bank dominates the external research voice along with the IFC, OECD and similar quasi-governmental organizations. The annual Doing Business Report from the World Bank provides a starting point for examining the SME experience in Jordan within the broader context of the business environment as a whole. The Doing Business report is useful for finance-related topics such as credit and insolvency, where Jordan continues to struggle in the rankings (World Bank, 2014). The World Bank's Enterprise Survey expands the experience in Jordan further with a more in-depth look at the experience of entrepreneurs.

The Jordanian Government, vis-à-vis the Ministry of Planning and International Cooperation, The Central Bank of Jordan, Jordan Economic Development Corporation and other ministries all contribute to a growing body of research and reports about the entreprenur environment and SME financing in Jordan. The Jordan Loan Guarantee Corporation provides further insight into partial credit guarnatee schemes in the country.

Key Finding: The "Missing Middle" Funding Gap

SMEs often lack the skills, banking history and collateral required for traditional financing, and banks hesitate to adapt risk tolerances. As a result, SMEs are "often overlooked and underserved by formal financial institutions and SME support organizations, particularly due to the challenges to address their needs in ways that are scalable and sustainable" (Airey & Al-Yahya, 2013). What emerges is a funding gap for SMEs who have grown beyond the level of micro-finance and have not yet achieved large-scale commercialization. In Jordan, the impact of this missing funding has broad implications.

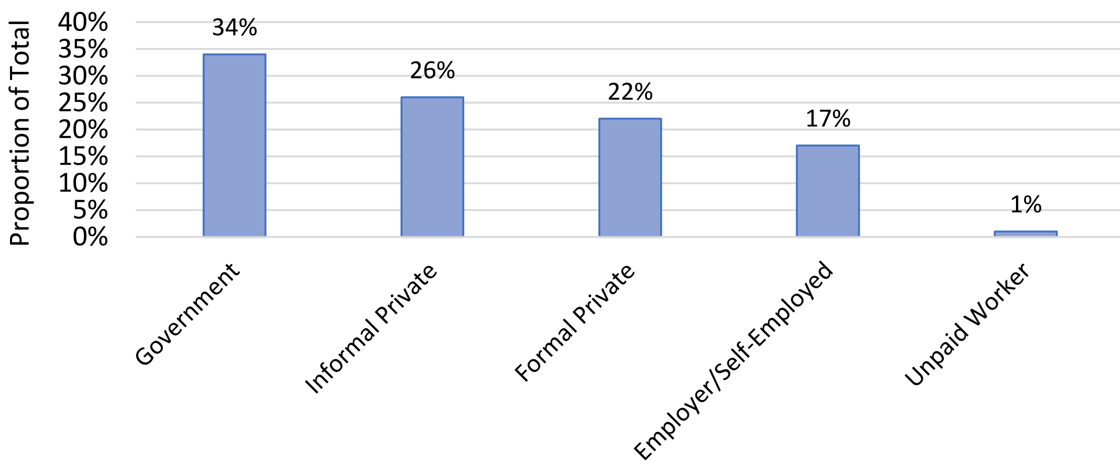
SMEs in Jordan often find themselves in a quandary; too big for micro-finance loans and too small and risky for commercial banks (Hsu, Sailing the Seven "Cs:" Unlocking bank financing for SMEs in the Middle East, 2013). This problem has been described as the "missing middle," an identified gap for SME firms seeking approximately $50,000 to $2 million in financing (Airey & Al-Yahya, 2013). Across the MENA, this credit gap is estimated to be between $110 billion and $140 billion (Hsu, The OPIC Blog, 2014).

Importance of Financing to SMEs in Jordan

SME Landscape in Jordan

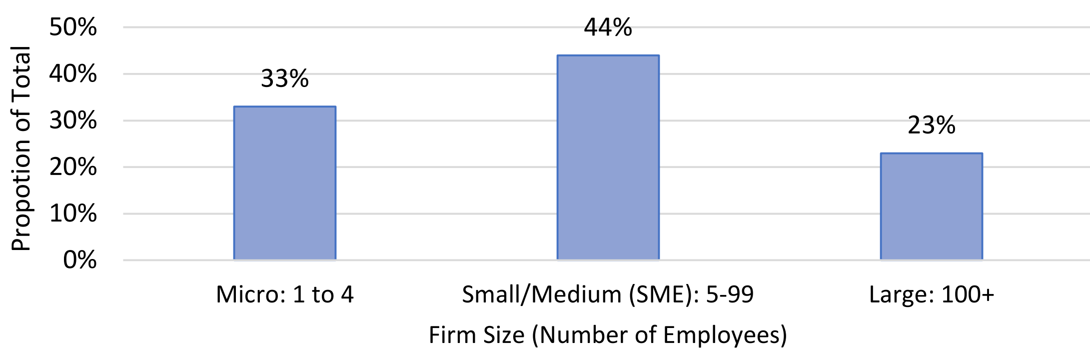
Small and medium size enterprises (SMEs) are the route to job creation and growth. The 2010 Jordan Labor Market Panel Survey reports that the government employs 34 percent of workers, with the rest either in informal or formal private employment or self-employed (Figure 3.1). Of those in the private sector, over 75 percent are employed in SMEs with nearly one-third working for enterprises with fewer than 5 employees (Figure 3.2) (Assaad, 2014).

Figure 3.1: Distribution of Employment by Employment Type (2010 JLMPS)



Source: (Assaad, 2014)

Figure 3.2: Distribution of Private-Wage Employment by Firm's Employee Count (2010 JLMPS)



Excludes "Don't Know" responses of 20 percent. Source: (Assaad, 2014)

What many of these enterprises need is cash to fund their operations and capital in the form of equity and debt as well as other financial services. But, many SMEs are unable to access commercial financing and rely on self-financing for their operations. Micro-finance lending is more prominent, but there is little upward economic mobility from this stage with many firms mired in the “missing middle” finance gap.

Defining SMEs in Jordan

The definitions of micro, small and medium size enterprise vary depending on the source and setting. While some definitions take into account the firm’s economics in terms of per capita income, for the purposes of this report we will primarily focus on number of five employees is considered micro, five to 19 employees is small and 20 to 99 employees is medium. Firms with 100 or more employees is considered large. While this provides clear thresholds for comparison, lumping all SMEs together should be done with caution, as wide variations exist between formally organized and informal entities, and differences among sectors and what development stage the SME is at.

SMEs are the driving force of job growth in emerging economies. Evidence of this can be seen in Jordan, where SMEs make up 99 percent of the over 150,000 registered private enterprises (El Abd & Nasr, 2013). These SMEs dominate the labor market and job creation and account for 77 percent of private sector employment in the country (Assaad, 2014). SMEs also contribute 40 percent of GDP (Kandah, 2011).

An important element of the situation analysis of SME finance in Jordan is the prevalence of an informal economy and unregistered enterprises. Many businesses in Jordan are unregistered or have workers who may have an informal employment arrangement. According to a 2012 UNDP report, using the 2010 JLMPS data, 44 percent of total employment in Jordan is informal. The report also outlined that an estimated 21 percent of GDP can be attributed to the informal economy (UNDP, 2012). Firms operating in this “gray economy” would likely be reticent to pursue formal commercial bank financing and would be unlikely to receive it if they did for lack of transparency and legal concerns from lenders. This situation only further limits the number of SME with access to financial services.

Challenges SMES Face Accessing Finance

Accessing financing is among the top challenges many SMEs face in Jordan. The World Bank’s 2013 Enterprise Survey of 573 firms reports that access to finance was the most significant obstacle for 31 percent of respondents overall and 36 percent for small firms (The World Bank Group, 2013). Financing in Jordan typically materializes in the form of credit and loans as equity financing has been slow to be adopted. Broadly speaking, according to a joint report from the Jordan government and UNDP, “SMEs are generally family business that have not historically been open to external equity financing and transparent books” (United Nations Development Programme (Amman-Jordan), and the Ministry of Planning and International Cooperation, the Hashemite Kingdom of Jordan, 2011).

Improving Bankability is a key element to improving SME access to finance. In Jordan, the extent of the use of formal financial services is limited as transactions are primarily cash-driven. According to the 2014 World Bank Findex data, only 25 percent of Jordanians (age 15 or over) report having an account at a financial institution, 4 percent have a savings account and 14 percent report having done formal borrowing in the past year (World Bank, 2015). The amount of firms with at least a checking or savings account jumps to 83 percent according to the Enterprise Survey but this is evidence that a high number “un-banked” and “under-banked” persists (The World Bank Group, 2013).

Traditional bank financing is attractive to SMEs because interest rates from these lenders tend to be much lower than the typical 16-20 percent annual interest rate charged by micro-finance institutions (United Nations Development Programme (Amman-Jordan), and the Ministry of Planning and International Cooperation, the Hashemite Kingdom of Jordan, 2011). But business owners face difficulties in accessing traditional bank financing in Jordan due to what are seen as rigid requirements and collateral expectations. This is reflected in the traditional banking response, where SME loans account for only 13 percent of the total commercial loans in Jordan (McKinsey & Company, 2013). The bank loans that SMEs do receive tend to result from collateral rather than creditworthiness (El Abd & Nasr, 2013). But many Jordanians, particularly the poor, lack both.

Gaps in lending along with limited equity and secondary markets mean many firms struggle to fund startup costs, face liquidity challenges, are unable to make capital investments or fund expansion projects. They struggle to survive and further struggle to grow. These challenges become more apparent as the firm moves through stages of development and the scope and complexity of financing needs increases and the need to show financial history becomes more commonly required.

Beyond financing, SME business owners need non-financial services as they frequently lack the financial education or business training to expand their businesses (El Abd & Nasr, 2013). In Jordan, these challenges are compounded by other obstacles business owners face. Airey and Al-Yahya point out that “SMEs that are growing and in the midst of product expansion or development and commercialization require investments of capital and capabilities, often in advance of growth in revenues and associated profits” (Airey & Al-Yahya, 2013). They further outline needs of entrepreneurs in order to succeed include “access to flexible and patient capital” and “business development assistance.” In addition, the need for non-financial services is a necessity in order to help SME owners navigate sophisticated financial products or loan applications. Bank failure to cater to SMEs through engaging relationships stifles opportunity.

In Jordan, as in many other parts of the Muslim world, Islamic finance options to comply with *Shari'a* laws play a significant role in the decisions of individuals and firms regarding banking relationships. Further, *Shari'a* compliant financial products are needed but only offered by a limited number of banks (El Abd & Nasr, 2013). Increasing offerings in this area can improve financial inclusion in Muslim populations according to the Global Financial Development Report (The World Bank, 2014). As a predominately Muslim country, banks in Jordan could further close the credit gap by adapting lending to meet religious expectations.

Role of Traditional Banks in SME Financing

The banking and finance sector in Jordan is well-developed but remains slow to adapt to the needs of SMEs. Risk and the ability to predict and mitigate risk is part of the challenge. Costs of lending to SMEs are high compared to returns and risk. Financial education remains a challenge among potential customers as well. The potential returns could be lucrative from lending to SMEs if banks could adapt their approach and expand their product offerings. The predicted upside would not only be a payout in billions of dollars for banks (McKinsey & Company, 2013) but could also contribute to geo-political stability and expansion of prosperity for Jordan and the region.

SME Banking Landscape in Jordan

Jordan has an established traditional banking and finance sector. There are 26 licensed banks, including four Islamic banks, according to the Central Bank of Jordan (Central Bank of Jordan, 2015). Table 3.1 provides a breakdown of the banking sector in recent years as well as branches and service ratios. Bank services are more concentrated in and around Amman compared to rural governorates as branches tend to follow population. Arab Bank, The Housing Bank for Trade and Finance, Jordan Islamic Bank, and the Jordan Kuwait Bank are the largest banks in terms of assets (Association of Banks in Jordan, 2014).

From 2009 to 2013 the weighted average loan interest rate among the licensed banks in Jordan was 8.95 percent (Table 3.2). In comparison, micro-finance loans ranged on average between 16-20 percent interest during the same time period (United Nations Development Programme (Amman-Jordan), and the Ministry of Planning and International Cooperation, the Hashemite Kingdom of Jordan, 2011).

Table 3.1: Number of Licensed Banks in Jordan and their Branches					
	2013	**2012**	**2011**	**2010**	**2009**
Number of Licensed Banks Operating in Jordan	26	26	26	25	23
Jordanian Banks	13	13	13	13	13
Jordanian Islamic Banks	3	3	3	3	2
Foreign Banks	9	9	9	9	8
Foreign Islamic Bank	1	1	1	0	0
Number of Branches	739	714	695	663	616
Population Per Branch (Thousand)	8.8	8.9	9.0	9.2	9.7
Source: (Central Bank of Jordan, 2015)					

Table 3.2: Interest Rates at Licensed Banks in Jordan (%)					
	2013	**2012**	**2011**	**2010**	**2009**
CBJ Re-discount Rate	4.50	5.00	4.50	4.25	4.75
Loans and Advances*	9.03	8.95	8.67	9.01	9.07
Prime Lending Rate*	8.85	8.68	8.22	8.20	8.34
**Weighted Average.* *Source:* (Central Bank of Jordan, 2015)					

Challenges Banks Face Financing SMEs

The primary challenges banks face in financing SMEs in Jordan center on reducing risk and costs. According to McKinsey and Company, the challenges bank face in the MENA include dispersed clients, low bank revenue per client, poor data availability, customer business/financial literacy and a poor business environment (McKinsey & Company, 2013). The value proposition of financing SMEs in Jordan through traditional banking approaches is low under legacy models. There is a tendency for an increase in loan amount to increase profit margins while decreasing risk and costs which focuses attention toward larger firms. The IFC and others have outlined SME banking revenue is projected to reach $15 billion in 2015 in the MENA but capturing market share requires changes in banking delivery models (Saleem, 2013).

Commercial banks are typically oriented to working with business customers who have traditional financing needs and bring their own internal capacity for sophisticated financial management. In comparison, SME opportunities often lack a banking history and are less inclined to possess ample financial literacy or business acumen to navigate and manage complex financial arrangements. Hsu and others are more specific that from the banks perspective, the challenge is “prospective borrowers’ inability to provide adequate business plans with cash flow projections” (Hsu, Sailing the Seven “Cs:” Unlocking bank financing for SMEs in the Middle East, 2013).

As a result, successful SME banking relationships demand a “hands-on” approach which traditional banks are not typically positioned to offer. The IFC has identified some of the key elements needed for a successful engagement of SMEs and to grow an SME lending business. According to their proficiency map, credit risk and product development are two key ingredients to success for an SME lending business (Saleem, 2013). Currently, some banks in Jordan are doing more to leverage deposit and transactional banking to generate more business and taking steps to provide non-financial services as additions to their portfolio of commercial services for their customers. For the relationship with SMEs to be successful, banks must adopt new approaches to capture revenue and mitigate risk in alternate ways compared to conventional commercial relationships. This may include, for example, expanding mobile banking options, carving out new market niches or inventing new credit scoring models.

The traditional aspects of credit are capacity, character, collateral, capital and conditions. A gap in information of any of them increases lending risk. In Jordan, a lack of individual and commercial credit information is a major constraint for SME banking. According to the World Bank 2015 Doing Business report, Jordan is ranked 185 out of 189 economies for this indicator (World Bank, 2014). Examining credit best practices in economies shows that a proper legal and regulatory framework, as well as a functioning and transparent credit reporting system, reduces risk and costs for lenders and improves interest rates for borrowers.

In 2011, Jordan took regulatory steps to establish a private credit bureau. Though the regulatory foundation has been established for the Jordan Credit Bureau, in early 2015 the CBJ head reported that they continue to work with banks to operationalize the agency (Ghazal, 2015). Without a robust credit registry or bureau, banks must rely solely on self-derived risk modeling and customer vetting. These efforts add costs to the loan process and inhibit lending to many SMEs as this method doesn’t provide a complete risk profile.

Without a complete credit profile, banks in Jordan tend to rely on collateral to guarantee loans. In Jordan, the collateral value on average is 127 percent, which is less than other parts of the MENA with an average ratio of 198 percent. Nearly 90 percent of loans in Jordan require collateral (The World Bank Group, 2013). Farazi et al point out that “countries that are able to strengthen creditor rights and provide more information to creditors succeed in inducing more SME lending overall or more long-term lending to SMEs.” They go on further to argue that strengthening credit information systems and creditor rights should remain the priority item in the legal/regulatory agenda (Farazi, Khouri, Pearce, & Rocha, 2011).

Alternative risk modeling options may provide additional credit and risk insight. McKinsey and Company, working with financial institutions in the MENA, have outlined qualitative credit assessments and behavioral credit models to expand opportunities based on existing banking relationships (McKinsey & Company, 2013). Psychometrics are another avenue being explored by researchers at Harvard and elsewhere. Beckhet and Eletter recently published findings of a credit scoring approach utilizing artificial neural networks and statistical techniques using sample data from Jordan commercial banks (Bekhet & Eletter, 2014). They point out that deficiencies in credit scoring provides risks associated with defaults, as well as missed revenue opportunity among rejected loan applicants. In that regard, the risk is two-fold; funding the wrong opportunity too often and not funding the right opportunities enough.

Options of asset-based lending, which provides more flexible terms than collateralized lending, have also been identified in recent years as an opportunity among developing economies but it is yet to be determined if Jordan has the legal systems and advanced financial expertise and services to accommodate this (Organization for Economic Co-operation and Development, 2015). Figure 3.3 lists additional techniques identified by the OECD that could be useful for SMEs in Jordan. Asset-based financed, depicted by the OECD as low risk/low return could be "low hanging fruit" to be explored further in Jordan and stepping stone toward hybrid financing options or equity.

Figure 3.3: Alternative External Financing Techniques for SMEs and Entrepreneurs

Low Risk/ Return	Low Risk/ Return	Medium Risk/ Return	High Risk/ Return
Asset-Based Finance	**Alternative Debt**	**"Hybrid" Instruments**	**Equity Instruments**
• Asset-based lending • Factoring • Purchase Order Finance • Warehouse Receipts • Leasing	• Corporate Bonds • Securitised Debt • Covered Bonds • Private Placements • Crowdfunding (debt)	• Subordinated Loans/Bonds • Silent Participations • Participating Loans • Profit Participation Rights • Convertible Bonds • Bonds with Warrants • Mezzanine Finance	• Private Equity • Venture Capital • Business Angels • Specialised Platforms for Public Listing of SMEs • Crowdfunding (equity)

Source: (Organization for Economic Co-operation and Development, 2015)

Partial Credit Guarantee Schemes in Jordan

Partial Credit Guarantee Schemes (PCGs) have been in place in Jordan and other parts of the MENA for decades and are considered a "market-friendly" intervention (Arvai, Rocha, & Saadani, 2010). These loan guarantee schemes have been demonstrated to be effective in promoting SME lending and unlocking additional capital in ten MENA countries including Jordan (Farazi, Khouri, Pearce, & Rocha, 2011). The Jordan Loan Guarantee Corporation (JLGC) is one example of this and it has been in place in Jordan for over two decades.

The JLGC offers a number of products and options targeted to different needs of enterprises and relies on agreements with banks for implementation. Increased attention on SMEs in Jordan has led to a renewed purpose of the JLGC. According to El Abd and Nasr, JLGC has developed an Islamic product and expanded the number of bank partners extending guarantees to SMEs (El Abd & Nasr, 2013). Table 3.3 summarizes ten JLGC financial products. Loan maximums vary among them from JD$15,000 to JD$550,000 with repayment schedules from three to eight years. The presence of an established and active PCG in Jordan could be further leveraged for social development in the country.

According to a 2010 report from the World Bank, the number of PCG loan guarantees issued in Jordan, as a factor of loans per million people per year, was 41. This is half of the MENA comparison countries' average of 80 and far below the benchmark total of 2,100. While there were relatively fewer loans, the size of the loans as a share of per capita income was high compared to the rest of the world. The average Jordan PCG loan, as a factor of GDP per capita was 10, compared to 21 in the rest of the MENA sample. In terms of dollars, the average was $37,700 compared $75,000 on average across countries in the MENA sample (Arvai, Rocha, & Saadani, 2010).

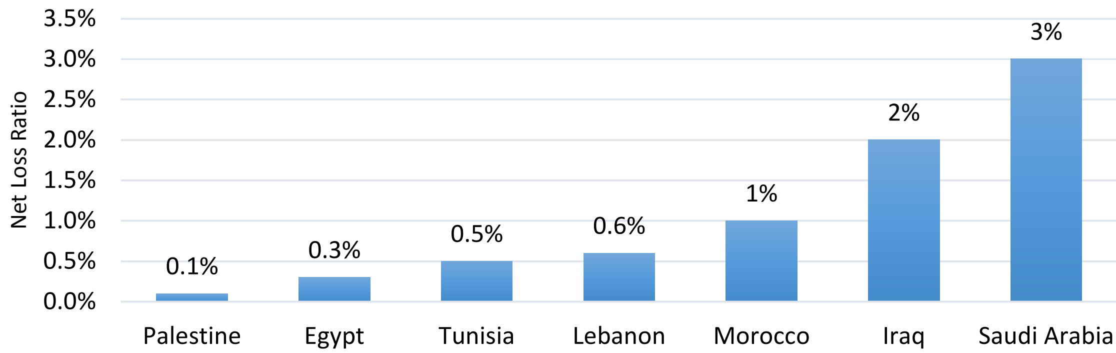
Table 3.3: Jordan Loan Guarantee Corporation Offerings

Programs	Max Loan Amount (JD)	Max. Payment Period (Months)	Guarantee Percentage (%)
SMEs Loan Guarantees	100,000	72	70
Micro Loan Guarantees	15,000	36	70
Industrial Loan Guarantees (EJADA)	550,000	96	70
Leasing Guarantees (EJADA)	550,000	96	70
KAFALA – Islamic Financing	70,000	72	70
Entrepreneurs Loan Guarantee	75,000	72	70
Business Loan Guarantee	70,000	60	70
Express Loan Guarantee	30,000	36	70
Vehicles loan program	550,000	84	70
SME bundles	100,000	60	70

Source: (Jordan Loan Guarantee Corporation, 2015)

According to World Bank Development Indicators, from 2010 to 2013, the average rate of nonperforming loans to total gross loans across Jordan was 7.85 percent (The World Bank, 2015). In comparison, a review of several MENA countries' PCG loans had a net loss ratio (payment of claims/outstanding guarantees) average of 1.1 percent from 2007 to 2009 (Arvai, Rocha, & Saadani, 2010). Figure 3.4 shows how low these ratios are and breaks them down by countries in the sample. The Jordan Loan Guarantee Corporation's net loss ratio of productive and industrial finance loans during 2013 was 0.6 percent. Table 3.4 provides a summary of the JLGC commercial portfolio including the claims, recovery and payout amounts. The low loss rates may reflect the spirit of the entrepreneurs they're lending to, or that the PCGs are effective at mitigating risk or overly selective of who and what they'll fund.

Figure 3.4: Net Loss Ratios of Partial Credit Guarantee Schemes in Middle East and North Africa Countries (Average 2007-2009)



Source: (Arvai, Rocha, & Saadani, 2010)

The size of the JLGC portfolio is limited and, as noted in the product summary previously, the duration of the loans is short resulting in a fairly high turnover rate. This is demonstrated by the 719 loans added in 2013 which totaled just under JD 17.5 million, or 62 percent of the JLGC commercial loan portfolio. Again, the low default rate of non-performing loans likely reflects a high degree of risk mitigation. As such, if the program were to be expanded the default rate may rise as more and or riskier loans are added to the portfolio. Still, the JGLC net loss ratio is comparable to the rest of the MENA which suggests more options and resources could be dedicated to PCGs in Jordan securely.

Table 3.4: Jordan Loan Guarantee Corporation Summary of Productive Loans, Net Loss Ratios and Rescheduling 2013*

Number of Outstanding Loans	1,362
Outstanding Loan Guarantee Value	JD 28,350,000
Submitted Claims	JD 600,000
Recovery Amount	JD 14,240
Payouts	JD 160,000
Rescheduled Loan Amount	JD 2,900,000
Net Loss Ratio (payout/loan value)	0.6%
Source: (Jordan Loan Guarantee Corporation, 2014)	

An additional example of a PCG scheme is the Jordan Loan Guarantee Facility, funded by OPIC and implemented by USAID. Initiated in 2011, the JLGF provides $250 million toward a 60 percent to 65 percent loan guarantee for SMEs in Amman. For SMEs outside Amman or for women-owned businesses throughout Jordan, that guarantee increases to 70 percent.

Repayment terms are up to 10 years with interests rates capped at 5 percent (U.S. State Department, 2011. The JLGF is implemented through banks in Jordan with the intention of reducing barriers for banks to lend to the SME segment (U.S. State Department, 2011).

Country Comparisons

Throughout this report comparisons across the MENA have been provided, but in order to expand the context for SME finance in Jordan it is helpful to examine the situation in similar countries in more detail. Three countries were selected with similarities to Jordan. The criteria used includes form of government (authoritarian), GDP between Int$10 billion to Int$20 billion (PPP) and population between 1 million and 10 million people. Using metrics from the Economist Intelligence Unit's 2014 Democracy Index, UNDP Human Development Index and data from the World Bank, three countries were identified as having similarities among these criteria to Jordan; Azerbaijan, Belarus and Gabon. In addition to these countries, Lebanon has many similar characteristics and has been included as an additional frame of reference within the MENA region even though they're considered a "hybrid" regime. A summary of criteria used for the selection of comparison countries is provided in Table 3.5.

For this comparison it is useful to focus on countries with similar government structure and political environment. In addition to the descriptive factors already identified, this comparison includes The Economist Intelligence Unit's Democracy Index 2014 (The Economist Intelligence Unit, 2015). This index ranks and scores countries by five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. The rankings for the categories are as follows: "full democracies" have a score from 8 to 10; "flawed democracies" have a score from 6 to 7.9; "hybrid regimes" have a score from 4 to 5.9; and "authoritarian regimes" have a score below 4. Jordan, along with Gabon, Belarus and Azerbaijan are considered "authoritarian regimes" and Lebanon is situated at the low-end of the "hybrid regimes." Jordan, Gabon and Belarus have scores near 3.75, Azerbaijan is lower on the spectrum at 2.8 and Lebanon is rated at just over 5.

Table 3.5: Comparison of Jordan to Similar Countries Across Various Development Factors					
Factor	**Jordan**	**Gabon**	**Belarus**	**Azerbaijan**	**Lebanon**
Population (millions)	6.460	1.672	9.466	9.417	4.467
GDP PPP (Int$ millions)	11,783	19,264	17,620	17,143	17,174
GDP Nominal (USD$ millions)	*33,679*	*19,340*	*71,710*	*73,560*	*44,352*
Democracy Index Score (1 to 10)	3.76	3.76	3.69	2.83	5.12
Human Development Index (Rank)	77	112	53	76	65
Human Development Index Category/Score (0 to 1)	High 0.745	Medium 0.674	High 0.786	High 0.747	High 0.765
Sources: (The World Bank, 2015), (United Nations, 2015) (The Economist Intelligence Unit, 2015)					

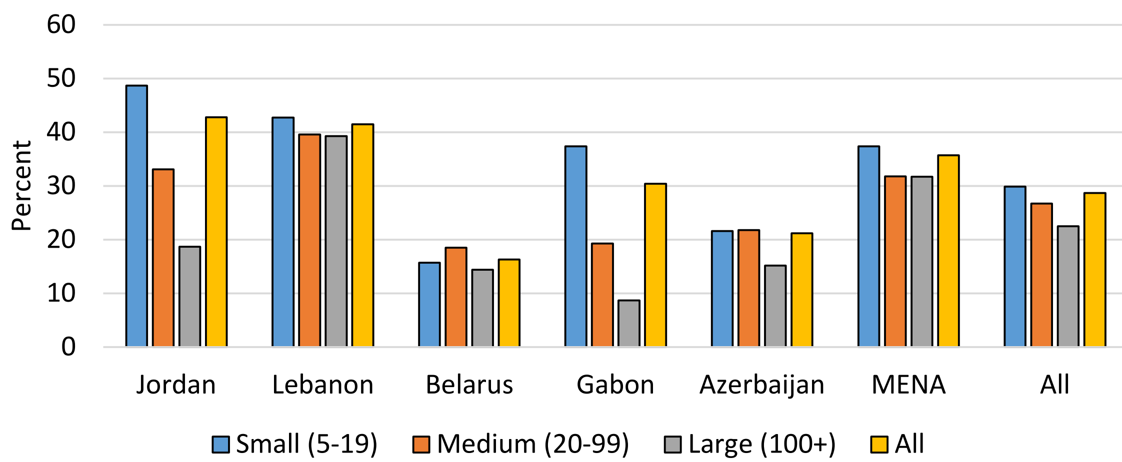
Another factor that was included in the comparison is the country's development level. The UNDP Human Development Index was utilized for this which is a composite statistic using indicators to rank and score countries according to their development level (United Nations, 2015). The index uses standards of living indicators such as life expectancy, education, GNI per capita and other metrics to generate scores from 0 to 1 and then ranks countries in order. The scores are categorized as "very high" with scores at or above 0.800, "high" with scores from 0.700 to 0.799, "medium" with scores from 0.550 to 0.699 and "low" with scores below 0.550. Jordan, as well as Belarus, Azerbaijan and Lebanon each scored in the "high" category with Gabon in the upper range of "medium." This indicator tells us that each country is at a comparable stage of development, but still has opportunity to move further along the development spectrum.

Based on these characteristics, we can then expand our review further knowing that the countries identified have key similarities to Jordan. Following are summaries of key elements, discussed previously in this report, applied to the comparison group.

Comparison of SME Finance Challenges

The World Bank's Enterprise Survey provides a great lens to examine the experiences of entrepreneurs in each country in our comparison. For the most part, the trend shows a prevalence of firms reporting finance as a major constraint increases inversely with the size of the organization. This is not surprising based on our analysis earlier for Jordan, and is a consistent trend across all countries represented in the Enterprise Surveys. Figure 3.5 displays the number of firms who report access to finance as a major constraint by firm size and overall, across our comparison set of countries as well as the MENA and all respondents. In Jordan, Gabon financing drops with the size of the business, and in other countries it is more consistent.

Figure 3.5: Percent of Firms Reporting Access to Finance a Major Constraint by Firm Size



Source: (The World Bank Group, 2013)

Comparison of SME Finance Environment

The SME environment in emerging economies, and the corresponding SME financing environment of those countries, have many similarities as well as differences. This comparison weighs the 2015 Doing Business Report rankings from the World Bank for each country and extracts access to credit information from the scoring. Among the comparison group, Jordan has a ranking of 117 in the Doing Business Report rankings, higher (worse) than all other countries in the group except Gabon (World Bank, 2014). Table 6 provides side-by-side comparisons among the countries in our comparison for Jordan.

As part of the analysis discussed earlier, access to credit was also reviewed as a key indicator. Among the peer group, Jordan has the highest ranking of 185 (indeed among the worst of all countries.) Gabon, Belarus and Azerbaijan all have an Access to Credit Ranking of 104, which means they're all on par with each other for legal rights associated with credit, depth of credit information and portion of the population covered by a formal credit reporting agency. Lebanon's ranking for access to credit was slightly higher at 116.

According to the Doing Business Report, Azerbaijan's public credit registry improved their credit information system by "providing banks with online access to its database, increasing the data available on borrowers and introducing penalties for banks that send information that is late or incorrect." Greater credit access was achieved in part by establishing an online platform for financial institutions to better access the public credit registry (World Bank, 2014).

The financial inclusion characteristics as an indicator of financial inclusion or individual "bankability," discussed earlier in the report, reveal variations between the countries. According to the World Bank Entrepreneur Survey, Jordan, Gabon and Azerbaijan report having between 25 percent and 33 percent of adults (age 15+) with a bank account (The World Bank Group, 2013). Lebanon has 47 percent and Belarus has 72 percent. Jordan is in the middle among the peer group in regards to the number of firms with a checking or savings account. Jordan and Gabon have a rate of approximately 83 percent. Belarus and Lebanon have a higher rate of 92 percent and Azerbaijan is just under 70 percent (see Table 6).

Account activity shows a relatively high rate of basic financial inclusion, what is perhaps more revealing is that firms with a bank loan/line of credit have a similar distribution or participation, but all of them are 30 percent or less. The only exception is Jordan at 60 percent. These low rates indicate that businesses overall and SMEs in particular, are either self-funding their operations and/or relying on alternatives to traditional bank financing for their businesses. It also is an indicator of the presence of an informal economy which relies more heavily on cash for transactions.

The collateral rates (see Table 3.6) for loans provide a glimpse into the lending experience for SMEs in the comparison countries. The proportion of loans requiring collateral is 80 to 90 percent for most of the countries in the peer group. One exception is Gabon, where only half of the loans require collateral. Further, the collateral amount as a portion of the loan amount in Jordan is the lowest requirement reported at 127 percent. Lebanon jumps to 207 percent and Azerbaijan's collateral requirement soars to 227 percent. Interestingly, the loan default rate for Jordan is the highest in the group at 7.8 percent with others closer to half that rate (3.4 percent to 4.5 percent) presumably because of the higher collateral amount requirements.

Table 3.6: Comparison of Jordan to Countries Across Entrepreneur, Employment and Finance Factors					
Factor	**Jordan**	**Gabon**	**Belarus**	**Azerbaijan**	**Lebanon**
Doing Business Rank	117	144	57	80	104
Getting Credit Rank	185	104	104	104	116
Strength of Legal Rights Score	0	6	2	2	2
Depth of Credit Score	0	2	6	6	5
Credit Coverage of Adults (% - Registry/Bureau)	2.2/0	50.8/0	64.5/0	28.7/0	20.3/0
Source: (World Bank, 2014)					
Unemployment Rate (%)	12.6	19.6	5.8	5.7	6.5
Source: (The World Bank Group, 2013)					
Financial Inclusion					
Individuals (age 15+) with a bank account (%)	25	33	72	29	47
Firms with a checking or savings account (%)	83.3	83.6	92.2	69.7	92.8
Firms with a bank loan/line of credit (%)	16.7	9	30.4	14.6	57.3
Proportion of loans requiring collateral (%)	89.6	52.5	84.6	88.2	68.7
Value of collateral needed for a loan (% of the loan amount)	127	n.a.	153.6	226.6	207.7
Bank Non-Performing Loans to total gross loans (%)	7.85	3.40	4.70	4.50	4.00
Source: (The World Bank Group, 2013)					

This comparison has shown some of the similarities and differences between Jordan and other countries along several metrics. Entrepreneurs in Jordan enjoy some advancements over their peers in the comparison countries. For example, relatively low collateral requirements improve loan options for SMEs. The Doing Business rankings has also shown that Jordan can take steps to improve their business environment to surpass their peer states. Improving credit access, for example, would not only improve Jordan's Doing Business rankings but also contribute to lower unemployment as evidenced by Belarus, Azerbaijan and Lebanon.

Conclusion

This report has shown that there are many challenges associated with SME financing in Jordan. SME entrepreneurs cite accessing finance as the largest obstacle they face and often lack the financial knowledge and skills needed to navigate financial options. Banks have been slow to adapt their traditional lending practices to meet the needs of SMEs and face challenges of their own, particularly reducing risk and costs. As a result, many SMEs are unable to attain the necessary financing which inhibits job growth and economic improvement.

Estimates for the credit gap across the MENA allows us to surmise that potential opportunities could result in billions of dollars of additional revenue for banks in Jordan and further contribute to prosperity in the region. Enhancing access to credit information and history, improving financial literacy, expanding the financial product options tailored to SME needs and formalizing a larger part of the economy would help Jordan overcome these challenges.

While the existing body of research provides key insights and data, more research is needed to understand the intricacies of the SME finance process. Better awareness of the perceptions of entrepreneurs in Jordan and market analysis of their needs would provide a better picture of the challenges and opportunities they face. Similarly, a firm-level analysis of lending practices by banks in Jordan would provide greater insight into costs and barriers to SME lending in the current environment.

In conclusion, by focusing on financing through lending, this chapter has captured some of the experiences of SME business owners and banks in Jordan. As a window into other parts of the MENA, the situation in Jordan has shown there is a great need for options to reduce unemployment and foster entrepreneurs. But while the need is great, the opportunities are even greater as a new generation of entrepreneurs emerge ready to adapt and reinvent Jordan’s future.

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